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U.S. Senate Comm. on Banking  
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# STOCK EXCHANGE PRACTICES

## HEARINGS

BEFORE THE

## COMMITTEE ON BANKING AND CURRENCY UNITED STATES SENATE

SEVENTY-THIRD CONGRESS

FIRST SESSION

ON

**S.Res. 84**

(72d CONGRESS)

A RESOLUTION TO INVESTIGATE PRACTICES OF STOCK  
EXCHANGES WITH RESPECT TO THE BUYING AND  
SELLING AND THE BORROWING AND LENDING  
OF LISTED SECURITIES

AND

**S.Res. 56**

(73d CONGRESS)

A RESOLUTION TO INVESTIGATE THE MATTER OF BANK-  
ING OPERATIONS AND PRACTICES, THE ISSUANCE  
AND SALE OF SECURITIES, AND THE TRADING

THEREIN

**PART 5**

CHASE SECURITIES CORPORATION  
OCTOBER 17 TO 25, 1933

Printed for the use of the Committee on Banking and Currency



UNITED STATES  
GOVERNMENT PRINTING OFFICE  
WASHINGTON : 1933

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U. S. Senate

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# STOCK EXCHANGE PRACTICES

TUESDAY, OCTOBER 17, 1933

UNITED STATES SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON  
BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to adjournment on Friday, October 13, 1933, at 10 a.m. in the Caucus Room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Townsend, Couzens, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Martin Conboy, counsel for Albert H. Wiggin; Eldon Bisbee, Henry Root Stern, Alfred E. Mudge, Joseph B. Lynch, Julian L. Hagen, and C. Horace Tuttle of Rushmore, Bisbee & Stern and also Albert G. Milbank, William Dean Embree, and A. Donald MacKinnon, of Milbank, Tweed, Hope & Webb, counsel for the Chase National Bank and the Chase Corporation.

The CHAIRMAN. The subcommittee will come to order. Senator Glass' office called my office this morning and delivered the message that under the orders of Senator Glass' physician he would have to go home and would not be able to attend the hearings until he gets better. We are sorry that he is unable to be with us. Senator Norbeck handed me this communication, dated October 14, 1933, which I will ask be placed in the record, explaining his absence, and under the authority given the chairman I will appoint Senator Goldsborough to serve in the absence of Senator Norbeck and in his stead. Senator Gore was to be here today but is detained in Oklahoma City. We expect to put him in the place of Senator Barkley, when Senator Gore is able to be present.

(Letter dated Oct. 14, 1933, from Senator Norbeck to Senator Fletcher, is as follows:)

UNITED STATES SENATE,  
COMMITTEE ON AGRICULTURE AND FORESTRY,  
*October 14, 1933.*

Senator DUNCAN U. FLETCHER,  
*Washington, D.C.*

MY DEAR SENATOR FLETCHER: This is to authorize you to represent me by proxy in connection with the stock-market investigation during my absence. This applies both as to the full committee and the subcommittee.

I am in full accord with the program as outlined by the counsel, Mr. Pecora, which is now being followed.

Very sincerely yours,

PETER NORBECK.

The CHAIRMAN. Mr. Pecora, are you ready to proceed?

Mr. PECORA. I wish to call Mr. Wiggin to the stand.

The CHAIRMAN. Mr. Wiggin, will you come forward, hold up your right hand, and be sworn: You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matters now under investigation by the committee. So help you God.

Mr. WIGGIN. I do.

The CHAIRMAN. Take a seat right there at the committee table.

#### TESTIMONY OF ALBERT H. WIGGIN, NEW YORK CITY, RETIRED

The CHAIRMAN. Mr. Wiggin, is your attorney Mr. Conboy?

Mr. WIGGIN. Mr. Conboy; yes, sir.

The CHAIRMAN. Do you want his name to appear on the record of our proceedings?

Mr. WIGGIN. Yes; please.

Mr. PECORA. Mr. Wiggin, will you give your full name, business or occupation, and address to the committee reporter for the record?

Mr. WIGGIN. Albert Henry Wiggin; address No. 660 Park Avenue, New York City; retired from business.

Mr. PECORA. When you were actively engaged in business what was that business?

Mr. WIGGIN. I have been in the banking business all of my business life, and for the last 29 years with the Chase National Bank.

Mr. PECORA. When did you retire from any active association with the Chase National Bank, if you have so retired?

Mr. WIGGIN. I declined reelection as an officer in the bank in January last.

Mr. CONBOY. Mr. Pecora, will you permit Mr. Wiggin to make a brief informal statement in his own fashion?

Mr. PECORA. I have no objection.

The CHAIRMAN. You may proceed, Mr. Wiggin.

Mr. WIGGIN. I assume it may save some of the time of the subcommittee, and will, perhaps, cover some of the questions Mr. Pecora will ask. I gather from the newspapers, and it is emphasized by the fact that for some months we have had examinations of my correspondence and books and check books, that there is some interest, not only in the bank, but in me personally.

I wish to say that I have been in the banking business for all of my business life. I worked in a bank during my school vacations, and when I finished school, at 17 years of age. I then went into a bank for keeps.

My early experience was in Boston. It has been a long experience. I have been through the machine, through the organizations. I went to New York in the banking business in 1899. I went as vice president of the National Park Bank. In 1904 I went to the Chase National Bank as vice president. It might interest the subcommittee to know the figures of the capital of the Chase National Bank at that time, that it was \$1,000,000, and that the surplus was \$1,000,000, and the deposits were \$54,000,000.

In 1911 I was made president of the bank. At that time the capital was \$5,000,000, and the surplus was \$5,000,000, and the deposits were \$100,000,000. The bank reached its greatest stature in 1930,

following the merger with the Equitable Trust Co.; and at that time the capital was \$148,000,000, and the surplus was \$148,000,000, and the deposits were in excess of \$2,000,000,000.

It was at that time the largest bank in the world; and it is today one of the largest banks of the world, and the largest bank in the United States. And its ramifications are many. It is known in every town in the country, and in a great deal of the rest of the world. It has business in Panama. It has business in Cuba. It has business in London, in Paris, and in the Far East.

The bank has been under my general direction. I was the largest stockholder for many years. I haven't always been able to study all of the details. But I have always wanted to take my full share of responsibility. I have always had entire confidence in all my associates. We have made mistakes. We must not look at things in the year 1933; we cannot look at them now as we did in 1929.

My education in banking has come from experience, and I think I am a natural optimist. I have, as you know, been in the business so long that I have been through a number of so-called "bad times," "panics." Our policy in 1907 with the bank, and again in 1914, and again in 1921, was to do business on the basis that we were going to be here a long time, that those times of bad business were temporary.

In this last period we did not anticipate that there would be such a tremendous world collapse. If we had sold out the collateral for our loans against the protests of our borrowers faster than we did we would have saved money for the bank and for the cutsumers. It was a mistake not being more cold-blooded and more harsh. But the policy that we have pursued, in 1907, in 1914, and in 1921, always resulted in benefit to the bank; and I am still confident that our policy in 1930-31, while we were not so cruel as we might have been, will result in benefit to the bank. I think so because I am such an optimist and such a believer in the country.

I think you know my activities in the general banking situation, but it is more the Chase Bank that I will try to confine myself to and not touch on the world problems of 1914 or 1929-30.

The Chase Securities Corporation was organized in 1917. Its original capital was \$2,500,000, and was, in effect, a dividend from the bank to its stockholders. And in order that there can be no question of where profits went, where the organizations were so closely allied, the equities were exactly the same. Each share of Chase National Bank stock carried with it a share of the Chase Securities Corporation.

The CHAIRMAN. And what was the capital?

Mr. WIGGIN. When the Chase Securities Corporation was originally started it was  $2\frac{1}{2}$  million dollars. In December of 1930, the high point in the banking business, the capital of the Securities Co. was 95 million dollars and the surplus was 13 million dollars.

Senator COUZENS. There was one joint certificate of ownership, was there?

Mr. WIGGIN. One joint certificate of ownership, stamped on the bank stock originally, that it carried a share of the Securities Co. The Securities Co. did not for years make any public offering of securities. Then about 1928, I think it was, the management yielded to the times and we started in in the selling of securities. It might



interest you to know that the total offerings of the Securities Co., the total issues that they offered, have amounted to \$6,158,000,000, and the defaults were 5.68 percent of all those securities issued.

Senator COUZENS. Over what period of time?

Mr. WIGGIN. That is from 1917.

Senator COUZENS. Right up to the dissolution of the corporation?

Mr. WIGGIN. Yes, sir; at the dissolution of the corporation. I do not want to bore you with all these things, but thought it might be of interest, and very helpful to you in asking questions. In the case of the Chase National Bank in 1904 we had just 20 stockholders. Today we have about 89,000 stockholders.

Senator TOWNSEND. Was that the high-water mark?

Mr. WIGGIN. Practically so. The number of directors in 1904 was six. There have been a great many increases in capital, which accounts for the figures I gave you before, and there has been an increase, a very large increase of the business, and a very large increase in the list of its directors and of its officers.

The CHAIRMAN. How many stockholders do you have now?

Mr. WIGGIN. About 89,000.

Senator COUZENS. Who is the largest stockholder now?

Mr. WIGGIN. Well, I think I know, but I want to be sure. (After consulting an associate:) John D. Rockefeller, Jr.

Senator COUZENS. Did he become the largest stockholder by way of purchase of stock in the market or through a new increase of stock by the bank itself?

Mr. WIGGIN. I think both; and from the merger with the Chase National Bank of the Equitable Trust Co. I believe he was a substantial stockholder in the Equitable Trust Co., and that gave him a substantial holding in the Chase National Bank. And, then, I think he has since increased his holdings by purchase.

The CHAIRMAN. How did you bring about that distribution of stock? Was the stock offered for sale to the public?

Mr. WIGGIN. The bank became popular. Its number of customers increased, and there was a very large demand for its stock.

Senator COUZENS. In the parlance of the street, is that how it came to be known as the Rockefeller Bank?

Mr. WIGGIN. In this last merger?

Senator COUZENS. Yes.

Mr. WIGGIN. I think so.

Senator TOWNSEND. You are now referring to the merger of the Equitable Trust Co.?

Mr. WIGGIN. Well, we have had some half dozen mergers. We merged the Metropolitan Bank in 1921. We merged the Mechanics & Metals, and the Mutual, and the Garfield, and the Park, and the Equitable Trust. Well, I am taking too much time, Mr. Pecora, but I thought this might save you some time, and now I shall be glad to answer any questions so far as I can.

Senator COUZENS. As to this great increase in number of stockholders, was that brought about by mergers or just by an increase in the amount of stock?

Mr. WIGGIN. Both, I think. I cannot tell you offhand the exact amount, but both.

Senator COUZENS. Mr. Pecora, I should like for Mr. Wiggin to put on the record at this time his directorships, including every

corporation that he was a director of at the time he has just been referring to.

Mr. PECORA. Mr. Wiggin, will you do that?

Mr. WIGGIN. At what time, Senator Couzens?

Senator COUZENS. Well, in 1929, just before you went out of the bank. I should like to know what your other affiliations were.

Mr. PECORA. I would suggest that you embrace in that the period of time you had in mind when you stated in your general statement that the bank was under your general direction.

Mr. WIGGIN. A list of directorships that I had during that time?

Mr. PECORA. Yes.

Mr. WIGGIN. I will try to get that for you.

Senator COUZENS. You haven't that information here now?

Mr. WIGGIN. Well, of course, I know in a general way, but I will have to get it. I would not want to forget any important ones.

Mr. PECORA. I think the general background that you have given the subcommittee by your statement is helpful. There are some details I want to fill in in order to complete the record on that. You have told us that the Chase National Bank was organized in 1877.

Mr. WIGGIN. Well, I didn't say so, but that is the fact.

Mr. PECORA. You became connected with it originally in 1904?

Mr. WIGGIN. Correct.

Mr. PECORA. When you entered its service it was as a vice president?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And did you continue in that capacity to serve the bank until the year 1911, when you became its president?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, after the year 1911 did you serve the Chase National Bank in any other capacity than as its president?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Will you give the dates of such services and designate the offices that you held?

Mr. WIGGIN. I continued as president until—now, I will have to check this date, but it was about 1918 when I took the position of chairman of the board of directors. In 1921 at the request of the board of directors I again took the presidency.

Mr. PECORA. Well, go ahead.

Mr. WIGGIN. I continued as president until the merger with the Mechanics & Metals National Bank.

Mr. PECORA. When did that merger take place?

Mr. WIGGIN. I will have to look up that date. (After consulting an associate.) In 1926. Then I continued as chairman of the board until the merger with the Equitable Trust Co. in 1930.

Mr. PECORA. Well, go ahead.

Mr. WIGGIN. Then I said I would take any title that they wanted me to have, or no title, whichever they preferred, and the suggestion was made that we create a governing board and call me chairman of the governing board. And that was done, and I continued in that position until last January, when I withdrew from active work.

Mr. PECORA. Would you say that it was since you became president in 1911, until last January, that the bank was under your general direction, to use your own language?

Mr. WIGGIN. I was the senior officer during that period, and the bank was under the direction of all its officers. There were several senior officers, but I was the highest senior officer, so to speak. No; it wasn't all my bank by any means, I mean it wasn't all my say.

Mr. PECORA. You used the expression in your general statement that the bank was under your general direction. Now, what period of time is embraced in that statement?

Mr. WIGGIN. Well, it is hard to answer that question. When I became president in 1911 Mr. Hepburn became chairman of the board, and Mr. Hepburn remained chairman of the board until 1918 I think the year was, and while Mr. Hepburn was not as active during the last 10 years of his life as before, he was the senior officer during that period and I was with him. I suppose I was—well, I was more active.

Mr. PECORA. Well, did your general direction of the bank date from that time and continue until last January?

Mr. WIGGIN. No. I think it was, perhaps, more under my general direction from 1911 on than it was under Mr. Hepburn. He was rather inclined to be inactive in his banking work.

Mr. PECORA. Well, did the bank continue under your general direction until last January?

Mr. WIGGIN. General direction would be too strong a term to use, because after the merger with the Equitable Trust Co. we had a governing board, and we regarded that as the superboard or the managing board, I should say.

Mr. PECORA. When was that governing board created?

Mr. WIGGIN. In 1930, at the time of the merger.

Mr. PECORA. You were then made its chairman?

Mr. WIGGIN. Yes.

Mr. PECORA. And you continued as its chairman until last January, when you declined reelection to the office?

Mr. WIGGIN. That is right.

Mr. PECORA. Well, as chairman of the governing board would you say that the bank was under your general direction?

Mr. WIGGIN. I was the senior officer.

Mr. PECORA. You were the senior executive of the bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. The executive head of the bank?

Mr. WIGGIN. I think so.

Mr. PECORA. And as such you participated perhaps to the extent of more than any other officer in the general policies of the bank, in the operation of its business?

Mr. WIGGIN. I wouldn't say more than any other officer, but as senior officer. We all participated in that.

Mr. PECORA. Could you mention the name of any other officer who had greater power in making determinations of the policies of the bank than you had?

Mr. WIGGIN. There was nobody who had greater power, but there were several who had equal power so far as that went.

Mr. PECORA. And who were they?

Mr. WIGGIN. Mr. Aldrich, Mr. McCain, and Mr. McHugh.

Mr. PECORA. Their power was on a parity with yours from the time of creating this governing board?



Mr. WIGGIN. Well, I was the senior officer, but they all had full authority to do business, to make decisions.

Mr. PECORA. Well, I assume that there was a chief in command. Who was that chief?

Mr. WIGGIN. I presume I was the chief man.

Mr. PECORA. Now, prior to the creation of this governing board, in 1930, you were the chief in command, too?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, according to our research into the history of the bank, the bank was formed on September 30, 1877, with a capital of \$300,000. I am adopting this means of eliciting these facts as, perhaps, a short cut. And if I make any statement that conflicts with your knowledge or belief, will you kindly indicate that conflict or disagreement?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, I understand that from 1877 to the end of the year 1928 the bank's capital had been increased nine times, until at the end of 1928 it had a capital of 60 million dollars, and a surplus of 60 million dollars. Does that correspond with your knowledge?

Mr. WIGGIN. I would have to check it, but I haven't any doubt that that is correct.

Mr. PECORA. Well, if any of your associates gathered about you can readily give you confirmation of those figures, I suggest that you obtain it from them.

Mr. WIGGIN. The figures, I think, indicate that the capital of 60 million dollars and surplus of 60 million dollars on December 31, 1928, is correct. I haven't confirmation of the nine increases you refer to, but I assume that is correct.

Mr. PECORA. All right. Now, after December 31, 1928, did the Chase National Bank merge with a bank known as the Garfield National Bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. That merger as I understand took place or became effective January 26, 1929.

Mr. WIGGIN. I will have to verify that figure. [After consulting an associate.] January of 1929 is correct.

Mr. PECORA. Now, at that time and as a result of that merger was the capital of the Chase National Bank again increased, and if so, to how much?

Mr. WIGGIN. I will get that figure for you in a moment.

Mr. CONBOY. Mr. Pecora, will you bear with us for just a moment, until we get that information for you?

Mr. PECORA. Yes. And if it will be of any guidance to you in confirming the figure, our research shows that as a result of that merger the capital of the Chase National Bank was increased by \$1,000,000, and its surplus was increased by \$1,000,000, and its undivided profits account was increased by \$179,397.29.

Mr. CONBOY. That would indicate that there had been a division of assets along the lines of the division that you have just indicated.

Mr. PECORA. Not division but acquisition.

Mr. CONBOY. Yes.

Mr. PECORA. By the enlarged institution as a result of the merger.

Mr. CONBOY. But I mean as to the capital, surplus, and undivided profits.

Mr. PECORA. That merger with the Garfield National Bank was effected by an exchange of stock on a share-for-share basis, was it not?

Mr. WIGGIN. I want to be sure on these things. It is going back a long time. (After consulting an associate.) That is correct.

Mr. PECORA. Now, several months thereafter did the Chase National Bank merge with an institution known as the American Express Bank & Trust Co.?

Mr. WIGGIN. That was not until 1932.

Mr. PECORA. Do you say it was in 1932?

Mr. WIGGIN. Yes.

Mr. PECORA. In July of 1929 did the Chase Securities Corporation, to which you have already made reference in your general statement, acquire the American Express Co.?

Mr. WIGGIN. That is correct.

Mr. PECORA. And thereafter, in 1932, you say that the Chase National Bank acquired the American Express Bank & Trust Co.?

Mr. WIGGIN. That is right, sir.

Mr. PECORA. Now, when was the American Bank & Express Co. organized?

Mr. WIGGIN. In 1930. I beg pardon. Will you let me correct that?

Mr. PECORA. Certainly.

Mr. WIGGIN. In 1931.

Mr. PECORA. I think 1930 is correct, isn't it?

Mr. CONBOY. Will you wait a minute, Mr. Pecora? I think there may be a little confusion there in the matter of the question itself.

Mr. PECORA. All right.

Mr. WIGGIN. I have got to correct my statement there, Mr. Pecora. I am relying on this information that I can gather here, and I am now told that the American Express Bank & Trust Co. merged with the Equitable Trust Co., and came in later with the Chase in that way.

Mr. PECORA. The question that I asked related to the date when the American Express Bank & Trust Co. was organized. I understand that date was April 15, 1930. As a possible guidance to you, Mr. Wiggin, on that I have a letter addressed to me by Mr. Henry Hargreaves, secretary-treasurer of the Chase Corporation, dated September 27, 1933, which contains the following statement with respect to the American Express Bank & Trust Co.:

The American Express Bank & Trust Co. was organized in March 1930 with a capitalization of 100,000 shares of \$100 par value each. The subscription price was \$160 per share providing for a capital of \$10,000,000, surplus of \$5,000,000, and the balance to organization reserve. Ten percent of the shares were allotted for subscription to the directors and officers of the new Bank & Trust Co. Thirty-six percent were offered for subscription to the shareholders of the American Express Co., and the balance was subscribed for by the American Express Co.

Chase Securities Corporation, as a stockholder of American Express Company, subscribed for 27,013 shares at \$160 a share. Six thousand seven hundred shares of this stock was sold to certain individuals at \$170 per share. (List supplied.) In December 1931 the American Express Bank & Trust Co. was merged with the Equitable Trust Co. of New York. The merger was effected on a cash basis by the payment of \$160 a share for the shares of American Express Bank & Trust Co. by the Equitable Trust Co.

Does that information correspond with your present recollection?

Mr. WIGGIN. Yes, sir.



Mr. PECORA. At the time of the organization of the American Express Bank & Trust Co., the American Express Co. was a subsidiary of the Chase Securities Corporation, was it not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Was it a wholly owned subsidiary?

Mr. WIGGIN. About 98 percent.

Mr. PECORA. The Chase Securities Corporation was the corporation that you said was organized in 1917?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Was it organized as an investment or securities affiliate with the Chase National Bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And its initial capital was \$2,500,000?

Mr. WIGGIN. That is correct, sir.

Mr. PECORA. The shares of capital stock of the Chase Securities Corporation at the time of its creation in 1917 went to the then stockholders of the Chase National Bank, did they not?

Mr. WIGGIN. Yes.

Mr. PECORA. They were paid for by means of a declaration of a 10 percent cash dividend by the Chase National Bank to its stockholders?

Mr. WIGGIN. The figure is 25 percent, Mr. Pecora; and I do not think it was a cash dividend. I think it was a dividend through securities. You must bear with me if I cannot give you all these figures offhand.

Mr. PECORA. That is quite all right, sir. I know there is a mass of detail here.

Now, by whom were the directors of the Chase Securities Corporation chosen?

Mr. WIGGIN. By the stockholders.

Mr. PECORA. Was any trust created for the benefit of the stockholders of the Chase Securities Corporation?

Mr. WIGGIN. No, sir.

Mr. PECORA. Are you sure that there was no trust created originally for the benefit—

Mr. BISBEE. I would like to explain that, Mr. Pecora.

Mr. PECORA. Will you please state your name to the reporter?

Mr. BISBEE. Eldon Bisbee.

Mr. PECORA. And you are a member of the law firm of Rushmore, Bisbee & Stern, are you not?

Mr. BISBEE. Yes, sir.

Mr. PECORA. And that law firm did much of the organization work for the bank?

Mr. BISBEE. Yes, sir.

Mr. PECORA. And still does?

Mr. BISBEE. Yes. It attended to the organization of the Chase Securities Corporation. The shares of the Chase Securities Corporation were issued directly to the stockholders of the bank, each stockholder of the bank becoming a shareholder of record in the Securities Corporation. The certificates of stock, both of the bank and of the Securities Corporation, made out in the names of the respective stockholders, were deposited with the Bankers Trust Co. The Bankers Trust Co. issued a receipt, each receipt covering the

same number of shares in each institution; and that is the piece of paper which the so-called "stockholder" of the bank and the Securities Co. held.

When the Bankers' Trust receipt was transferred, the character of the authorization on the back of the receipt was such that the Bankers' Trust Co. was appointed the attorney of the holder to endorse the respective stock certificates of the bank and Securities Corporation which it held, and transfer them to the name of the transferee of the receipt. So that each stockholder in each institution remained such of record and was in a position to vote directly in connection with all stockholders' meetings.

Senator COUZENS. What was the necessity of that procedure?

Mr. BISBEE. The advisability of it, Senator, from our point of view, was to preserve in each stockholder the absolute and untrammelled right to vote the shares of his stock, not through the instrumentality of a voting trust or any other kind of trust but through their ownership of stock of record.

Senator COUZENS. What was the objection to issuing him a certificate direct, instead of having it go through the Bankers' Trust Co.?

Mr. BISBEE. One was issued to him.

Senator COUZENS. Why did it have to pass through the Bankers' Trust Co.? I am just looking for information.

Mr. BISBEE. The machinery was organized in order that the parity of ownership might be maintained. If he had a separate stock certificate of the Securities Corporation he might sell that to Tom Jones or John Smith without selling his bank stock, and the parity of ownership would be destroyed.

Mr. PECORA. In other words, it was considered desirable to have all of the capital stock of the Chase Securities Corporation held at all times by the stockholders of the Chase National Bank?

Mr. BISBEE. That was a part of the unanimous agreement on the part of the stockholders of the bank when the Securities Co. was organized.

Mr. PECORA. Mr. Bisbee, will you tell the committee the reasons for that? What were considered to be the advantages to the institution of such an arrangement?

Mr. BISBEE. I will do my best, Mr. Pecora. Perhaps the business reasons might be better explained by someone else; but a bank as such may not engage in the securities business; that is, as the securities business is generally understood. Banks are restricted in the nature and quality of investments that they may make; and it was considered advisable at that time to have a corporation owned by the same stockholders in exactly the same percentages, that might undertake business which the bank could not undertake, and not only thereby make money for the stockholders by undertaking that business but thereby enhance the good will of the bank itself by enlarging the circle of its operations.

Mr. PECORA. Or to depreciate the value of that good will in the event that the business of the Securities Corporation proved unprofitable?

Mr. BISBEE. Proved unsuccessful, exactly.

Senator COUZENS. A while ago, in answer to a question propounded to Mr. Wiggin, he said that the stock of the Securities Co. was

issued jointly with the stock of the bank, and that the stamp on those certificates——

Mr. BISBEE. Let me explain that. He was thinking, Senator Couzens, of the situation which now exists. The original agreement whereby the certificates for the shares were deposited with the Bankers Trust Co., as I have indicated, was changed 3 or 4 years ago, so that on one side of a piece of paper now in circulation and held by the stockholders is the stock certificate of the bank; on the reverse side of the same piece of paper is the stock certificate of the Securities Corporation; and the instrument of transfer on the reverse side is so phrased that when one signs it, he transfers his interest in the particular shares of stock in both institutions.

Senator COUZENS. I understand that.

Mr. BISBEE. Of course, that has been changed from the original set-up.

Senator COUZENS. That is what I do not understand—why you did not do that in the first place? It seems that you have done it now; but I do not understand why it was not done that way in the first instance.

Mr. BISBEE. These things are matters of evolution, Senator; and our arrangement when we organized the Securities Co. was still original in that it preserved to each stockholder the right to vote on the shares of stock and not be the victim of a voting trust. At that time our best thought simply evolved that particular machinery. As time went by we thought of this other, and we were driven to think of it largely by reason of questions of economy. The cost of making out three certificates and having them transferred by the Bankers Trust Co. became so very great that we worked out the other means as a matter of economy.

Senator COUZENS. But that means what you later worked out was not announced at the time?

Mr. BISBEE. I never had heard of it.

Senator COUZENS. What year was that?

Mr. BISBEE. The organization?

Senator COUZENS. When you first developed the idea of one certificate?

Mr. BISBEE. That was about 3 or 4 years ago.

Mr. CONBOY. I think there was a misunderstanding between your question and Mr. Bisbee's answer. You want to know whether at the time the later plan was worked out, having the certificate of the bank on one side and the certificate of the Securities Co. on the other side of the same certificates——

Mr. BISBEE. No; I think the Senator wished to know whether at the time we originally organized the Securities Co. that method was not known.

Senator COUZENS. When you originated the idea of showing one participation on one certificate in both the bank and the Securities Co.—when you adopted that plan was it entirely new?

Mr. BISBEE. When we put both certificates on one piece of paper?

Senator COUZENS. Yes.

Mr. BISBEE. Not all of its elements were new. It had been developed between 1917 and that time. Our arrangement is a little



different from any other; but the general idea of having one certificate on one side and the other on the other side had been evolved—

Senator COUZENS. So that when you organized this scheme through the Bankers Trust Co. you had no other purpose in mind than you later accomplished by the new plan?

Mr. BISBEE. None other.

Mr. PECORA. I show you what purports to be a photostatic reproduction of a certificate of stock of the Chase National Bank on one side and on the other side a certificate of stock of the Chase Corporation. Will you be good enough to look at it and tell us if that is a true and correct copy of the form of those certificates?

Mr. CONBOY. It is a photostat that you got from our records, is it not?

Mr. PECORA. Yes.

Mr. CONBOY. It must be correct.

Mr. PECORA. I merely wanted the statement on the record as a basis for its introduction.

I offer it in evidence.

The CHAIRMAN. It may be admitted.

(The stock certificate referred to and identified by the witness was received in evidence, marked "Committee Exhibit No. 1, 10/17/33", and will be found on page 2339.)

Senator ADAMS. Suppose I were the owner of a share of this Chase National Bank represented by one of these two-faced certificates—I do not mean that in an improper sense, you understand—and I should go to the Chase National Bank and say, "I have sold my share in the Chase National Bank and I want a transfer of that share. I have not sold, and do not intend to sell, my share in the Securities Co.," and I give you instruments of assignment and transfer?

Mr. BISBEE. We would tell him that he was violating his agreement under which this arrangement is in effect.

Senator ADAMS. What would you do in the matter of making the transfer?

Mr. BISBEE. I have never been faced with the necessity of deciding that question.

Senator ADAMS. The stockholder has a right to transfer his stock, has he not?

Mr. BISBEE. He is violating his agreement. He has agreed that he will not transfer one without transferring the other.

Senator ADAMS. But conceding that he made that agreement, I am asking you this. Assuming that he violates the agreement, he says to you that, "legally as a stockholder of the Chase National Bank I have a right to transfer my certificate of the Chase National Bank." What would you say to him?

Mr. BISBEE. I would say to him, "I doubt your right to do it, because you have agreed not to do it."

Mr. PECORA. And that agreement was expressed on the face of the certificate that has just been offered in evidence?

Mr. BISBEE. Yes.

Senator ADAMS. What was the consideration?

Mr. BISBEE. He got his stock in the Securities Corporation as a consideration of that agreement.

Senator ADAMS. He got it because he was a stockholder, did he not?

Mr. BISBEE. Yes; but he transferred it to the Chase Securities Corporation. He took its stock in consideration of that agreement.

Senator ADAMS. Suppose I say to you, as a stockholder, "I will not make that agreement, and I want my share of the Securities Co. that you are giving other stockholders?"

Mr. BISBEE. You would have been entirely within your rights if you had done it at that time.

Senator ADAMS. What was the consideration for making the agreement?

Mr. BISBEE. He agreed with the Chase Securities Corporation that if it issued him its stock, so many shares, he covenanted, as the agreement provided. Also the charter of the Chase Corporation provides that a share of its stock may not be transferred without at the same time transferring to the same individual the same number of shares of the bank.

Senator ADAMS. I was inquiring into it as rather a legal question—whether, as a matter of fact, I was entitled to secure a certificate if I did not make the agreement.

Mr. BISBEE. He becomes a party to the agreement by accepting the certificate in the first place. By accepting that certificate he becomes a party to the agreement.

Senator GOLDSBOROUGH. As I understand, there were no dissenters to that plan?

Mr. BISBEE. It was unanimous.

The CHAIRMAN. The consideration for one certificate was the agreement of all the others?

Mr. BISBEE. That is true. Each stockholder agreed with every other stockholder that if he would do so, he would do so.

Senator ADAMS. Yet no stockholder could be compelled to do that?

Mr. BISBEE. No. He did it voluntarily at the outset.

Mr. PECORA. Would you say that one of the purposes sought to be effected by this arrangement in regard to the issuance of capital stock of the Chase National Bank and of the Chase Corporation was to maintain and observe at all times an identity of ownership between the stockholders of the two institutions?

Mr. WIGGIN. Yes, sir. We wanted to be sure that we guarded against any criticism or any unfair discrimination between the bank and the company. In other words, as long as the stockholders had exactly the same equity in each, it did not make any difference whether the Securities Co. made the money or the bank made the money.

Senator COUZENS. Did the creation of the Chase Securities Co. enable you to loan money to the Chase Securities Co. and thereby effect a benefit that you could not do direct through the Chase National?

Mr. WIGGIN. I think so.

Senator COUZENS. In other words, supposing that the Chase Securities Co. had investments in a corporation to which you could not loan on some security, it might be loaned by the Securities Co. and, in turn, be loaned by you to the Securities Co.?

Mr. WIGGIN. I cannot picture any loan that the bank could not make direct.

Senator COUZENS. Well, take this example. You could not, of course, loan on common stock, could you?

Mr. WIGGIN. On what common stock?

Senator COUZENS. Common stock of the corporation.

Mr. WIGGIN. Oh, certainly.

Senator COUZENS. You could not purchase common stock?

Mr. WIGGIN. No, sir.

Senator COUZENS. You could loan on it as a security, but you could not purchase it direct, although you could purchase bonds?

Mr. WIGGIN. Correct.

Senator COUZENS. So that if you wanted to control the corporation by the purchase of common stock you could not do it through the National Bank, but you could do it through the Securities Co.?

Mr. WIGGIN. The Securities Co. could purchase it; yes.

Senator COUZENS. So, in turn, you could lend the bank's money to enable them to do it?

Mr. WIGGIN. Lend it to the Securities Co.?

Senator COUZENS. Yes.

Mr. WIGGIN. Yes; we could.

Senator COUZENS. I do not charge that that was in contemplation, but it did create a device by which you could get control of the company through the deposits in the National Bank which you could not otherwise have gotten?

Mr. WIGGIN. I do not think it opened up any new field, Senator.

Senator COUZENS. I did not charge it, but it did make it possible?

Mr. WIGGIN. It was possible before.

Senator COUZENS. How?

Mr. WIGGIN. You could loan any individual or company money on the stock.

Senator COUZENS. But you could not get ownership?

Mr. BISBEE. The bank did not control it.

Senator COUZENS. Did not control what?

Mr. BISBEE. Anything that the Securities Co.—

Senator COUZENS. Certainly it did. They were identical stockholders.

Mr. BISBEE. The stockholders controlled them, but not the bank.

Senator COUZENS. Oh, that is just a bandying of words, because, as a matter of fact, it was under the same control, and this device was created for that purpose. I am not being critical, but I am saying that it provided this device.

Mr. BISBEE. It did not own the Securities Corporation.

Senator COUZENS. Oh, yes, it did. No matter how you may phrase it, it was the same stockholders and the same management, and the control of the Securities Co. was in the bank.

Mr. BISBEE. There were 89,000 stockholders.

Senator COUZENS. Yes; but the bank could furnish the money to purchase common stock and control the corporation through the Securities Co. which it could not do direct. I am not charging that you did that.

Senator ADAMS. That is merely one of many things which the Securities Co. enabled it to do that the bank could not otherwise do.

Senator COUZENS. Certainly.

Senator ADAMS. That is the purpose of the Securities Co.



Mr. PECORA. I show you a printed document entitled "Agreement", dated January 15, 1930, with Bankers Trust Co. as depository, incorporating all of the provisions of the agreement dated March 21, 1917, heretofore offered in evidence, between all the stockholders of the Chase National Bank and the Chase Securities Corporation. Will you look at that and tell us if you recognize it to be a true and correct printed copy of such agreement?

Mr. WIGGIN. It is correct.

Mr. PECORA. I offer that document in evidence.

The CHAIRMAN. Let it be admitted and incorporated in the record.

(The agreement referred to and identified by the witness, dated Jan. 15, 1930, was received in evidence as Committee's Exhibit No. 2, Oct. 17, 1933, and will be found on page 2340.)

Mr. PECORA. Let me read to you, Mr. Wiggin, from the face of the exhibit which has been marked in evidence as "Committee's Exhibit 1," of this date, and which is a photostatic reproduction of a certificate of stock in both the Chase National Bank and the Chase Corporation. I will read the following inscription from that side of the certificate representing the ownership of stock of the Chase National Bank:

The agreement of March 21, 1917, as amended between all the shareholders of the Chase National Bank of the city of New York and the Chase Corporation, to which the holder of this certificate, by the acceptance thereof and otherwise, has become a party, provides that no shareholder of either corporation will sell, pledge, or otherwise dispose of or transfer, whether voluntarily, by operation of law or otherwise, any share or interest therein in either corporation without at the same time transferring to or vesting in the same party an equal number of shares, or the same interest therein, in the other; also that such shareholder will not transfer any of such shares or any interest therein, otherwise than as permitted by the certificate of incorporation of the Chase Corporation and as stated in the stock certificate of that corporation on the reverse side hereof.

That is the agreement, is it not, to which Mr. Bisbee alluded in his statement for the record a few minutes ago?

Mr. WIGGIN. Yes, sir.

Senator COUZENS. May I ask at that point if there was any difference when you discussed this matter between the Chase Corporation and the Chase Securities Co.?

Mr. PECORA. The Chase Corporation was the original name of what is now known as the Chase Securities Co.?

Mr. WIGGIN. The other way around.

Mr. PECORA. The Chase Securities Corporation was the original name, and subsequently was changed to the Chase Corporation?

Senator COUZENS. Was there any change in capital set-up at that time?

Mr. BISBEE. That was only last spring.

The CHAIRMAN. When was the change made?

Mr. WIGGIN. Last spring.

The CHAIRMAN. The change in the name?

Mr. WIGGIN. The reduction in capital.

Mr. BISBEE. And also a limitation on the powers of the corporation. That is the time that it decided to make operative, Senator, their conclusion not to longer engage in the securities business.

Senator COUZENS. And that is when the title was changed?

Mr. BISBEE. They amended the charter so as to eliminate the provisions authorizing them to engage in the securities business. That was in the spring of this year.

Mr. PECORA. On what date was that change made last spring?

Mr. WIGGIN. It was on May 16, 1933, effective the following day. So May 17 was the date.

Mr. PECORA. What prompted that change, Mr. Wiggin?

Mr. WIGGIN. That was since my retirement from the bank, and I think that perhaps Mr. Aldrich can answer that. I know Mr. Aldrich can answer it better than I can.

Mr. PECORA. I suggest, then, that Mr. Aldrich be sworn, because he is going to be called as a witness and examined extensively later on. I suggest that he be sworn now so that in the record at this time we may get his knowledge.

**TESTIMONY OF WINTHROP WILLIAMS ALDRICH, PRESIDENT AND CHAIRMAN OF THE GOVERNING BOARD OF THE CHASE NATIONAL BANK, NEW YORK, N.Y.**

The CHAIRMAN. You do solemnly swear that your testimony which you will give in this hearing will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ALDRICH. I do.

Mr. PECORA. What is your business and address, please?

Mr. ALDRICH. I am president and chairman of the governing board of the Chase National Bank in New York, 18 Pine Street, New York.

Mr. PECORA. You are also an officer of the corporation known as the Chase Corporation and which had previously been called the Chase Securities Corporation?

Mr. ALDRICH. Yes.

Mr. PECORA. Have you heard the testimony given by Mr. Wiggin up to the present time?

Mr. ALDRICH. Yes; I have.

Mr. PECORA. I addressed a question to Mr. Wiggin just prior to your having been sworn, in which I asked him to give the committee the reason or reasons for the change that was made in May of 1933 in the charter or bylaws of the Chase Securities Corporation.

Mr. ALDRICH. Mr. Chairman, that goes into a great many things. The answer to that question requires consideration of a number of things. Sometime ago—I think it was in March of this year when that policy was announced of divorcing the securities affiliate of Chase National Bank and changing the charter of the Chase Securities Co. so that it could not deal in securities—I took occasion to make a statement as to what I thought should be done with regard to the divorcement of investment banking from the banking done by the large commercial banks.

The reasons for the conclusion that I had reached go back quite a long distance into the past. And I had come to the conclusion that it was not desirable for commercial banking and investment banking to be conducted in close affiliation. I think perhaps that statement is familiar to you all. I would like when I am called upon to testify



in chief to put that statement into the record and explain more fully my reasons for the conclusion I had reached.

The CHAIRMAN. At that time there was legislation pending in Congress respecting that subject, was there not?

Mr. ALDRICH. Yes; but the legislation did not go as far as I felt that it should. I would like, if this committee would permit me to do so, to make a more formal statement in regard to that, because I would prefer to do it more formally because of the complexity of the thing than I would to make a statement in regard to it now offhand. I think it is one of the most important things before this committee. But I think that for the purpose of the record at this time I might say that I had come to the conclusion, for a great many reasons, that the business of commercial banking and investment banking should be absolutely divorced, and for that reason at that time we started dissolution proceedings of the Chase Harris Forbes Companies, and we changed the charter of the Chase Securities Corporation so that it could no longer deal in securities, and changed its name, and that corporation also is in course of liquidation.

Now obviously you cannot liquidate a thing like that overnight. It requires a very careful consideration as to how an orderly liquidation should be conducted. There again I would like to make a more detailed statement to the committee later with regard to the machinery for that. But I do not think it is properly covered by the act which is now drawn.

Mr. PECORA. Do you mean the Glass-Steagall banking bill?

Mr. ALDRICH. The Glass-Steagall banking bill passed in 1933.

Mr. PECORA. That was passed in the last session of Congress?

Mr. ALDRICH. Yes.

Mr. PECORA. Mr. Aldrich, you undoubtedly will be given a full opportunity in the course of your examination to put on the record the matters that you have just referred to, but at this time let me ask you this question: Did you cause to be sent to the shareholders of the Chase National Bank and the Chase Securities Corporation a letter bearing date April 5, 1933, in which the stockholders were apprised of the action proposed to be taken at special meetings of these two corporations called for May 16, 1933, on which date the changes that are the subject of the immediate examination were effected?

Mr. ALDRICH. Yes.

Mr. PECORA. Is this a true and correct reproduction or copy of the letter that you then caused to be sent to such stockholders?

Mr. ALDRICH. Yes.

Mr. PECORA. I offer that letter in evidence. I think, Mr. Chairman, it will be very timely at this time.

The CHAIRMAN. Let it be admitted and entered in the record.

(Letter to the shareholders of The Chase National Bank and Chase Securities Corporation, dated April 5, 1933, signed by Winthrop W. Aldrich, was received in evidence and marked "Committee Exhibit 3" of October 17, 1933.)

Mr. PECORA. The letter has been marked "Committee's Exhibit 3" of this date. I think it might be enlightening to the committee to have me read it. (Reading:)

## COMMITTEE EXHIBIT No. 3, OCT. 17, 1933

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK,  
CHASE SECURITIES CORPORATION,

April 5, 1933.

*To the Shareholders of The Chase National Bank and Chase Securities Corporation:*

The Chase National Bank and Chase Securities Corporation propose to take several important steps which are detailed below. Some of them will be submitted for consideration by shareholders at special meetings called for May 16, 1933, official notice of which will be sent to the shareholders in due course.

These are extraordinary times. They call for intelligent preparation to meet future requirements and to provide improved commercial banking facilities. Such is the purpose underlying the program it is now proposed to follow. We believe this program will commend itself to the judgment of our shareholders as dictated by a wise and conservative adjustment of policy to existing conditions.

We believe that what we propose is in the best interests of the bank and in accord not only with sound banking policy but responsive to enlightened public opinion.

I

On March 8 last I issued a public statement pointing out that the experience of the past 10 years had clearly indicated the advisability of separating commercial banking from the general business of investment banking. The Chase National Bank had for some time been giving serious consideration to the question of severing its connection with its security affiliates and of limiting its future participation in investment banking solely to handling obligations of the United States Government and of States and municipalities and other securities as provided in the National Banking Act. Last month a special committee of directors was appointed to recommend ways and means of bringing about this result. The report of this committee was submitted to and its recommendations were approved by the board of directors of The Chase National Bank and of Chase Securities Corporation at meetings held today.

The committee, being unanimously of the opinion that there should be a prompt separation of the business of distributing securities as conducted by the securities affiliates and the commercial banking business of The Chase National Bank, reported that it had given consideration to a number of plans for accomplishing this result, including the possibility of selling the securities business to outside interests. The conclusion was finally reached, however, that in view of existing conditions it would be impossible to obtain at this time any satisfactory proposal to purchase the securities business of the affiliated companies.

The committee accordingly recommended a plan which, as supplemented by further recommendations made by the board of directors of Chase Securities Corporation, embraced the proposals set forth below. These proposals, as approved by the board of directors, are to be submitted for consideration and action by the shareholders at the special meeting to be held on May 16, 1933. These proposals are summarized as follows:

(a) That the charter of Chase Securities Corporation be amended so as to eliminate from its activities the business of distributing securities to the public. As the charter of this corporation is broad in scope, the committee recommended that the intended limitation be accomplished by the addition of a proviso to the effect that after the effective date of the amendment the corporation should not, either directly or indirectly, through any subsidiary, engage in the business of issuing, floating, underwriting, publicly selling or distributing, at wholesale or retail or through syndicate participations, stocks, bonds, debentures, notes, or other securities.

(b) That Chase Harris Forbes Companies, which is a wholly owned subsidiary of Chase Securities Corporation, engaged exclusively in the securities business, be placed in process of liquidation.

(c) That the corporate name of Chase Securities Corporation be changed so as to eliminate the word Securities therefrom.

(d) That the par value of each share of Chase Securities Corporation be reduced from \$5 to \$1, and thereby the capital stock of Chase Securities Corporation be reduced from \$37,000,000 to \$7,400,000.

(e) That the board of directors of Chase Securities Corporation be reduced in number from thirty to ten.

As soon as these proposals are put into effect the securities business of The Chase National Bank's affiliates will terminate. Although Chase Securities Corporation (under its new name) will continue by identity of stock ownership to be affiliated with The Chase National Bank, its activities will be limited to holding and administering its remaining investments, including its investment in American Express Company until appropriate disposition can be made of such investments. The proposed reduction in the capital of the corporation involves an elimination of all elements of "good will" value from its assets.

## II

In my public statement of March 8 I suggested that boards of directors of commercial banks should be limited in number by statute so as to be sufficiently small to enable the members to be more closely in touch with the affairs of their banks.

In accordance with the spirit of the foregoing suggestion, and without awaiting the enactment of any such statute as that suggested, the board of directors of The Chase National Bank today approved a resolution submitting to the special meeting of the shareholders to be held on May 16, 1933, a proposal to reduce the number of members of the board of directors of the bank to not more than forty.

The present board numbers seventy-two members. This number is an outgrowth of the numerous amalgamations which have taken place between The Chase National Bank and other banks in recent years, especially those with The Mechanics & Metals National Bank, The National Park Bank, and the Equitable Trust Company. Prior to the amalgamation with The Mechanics & Metals National Bank in 1926 the Board of Directors of the Chase National Bank numbered twenty-eight members. When the other banks were combined with the Chase their directorates were successively added to the then existing board.

## III

It would not seem necessary to call to the attention of shareholders the extraordinary conditions with which banking in the United States has recently been confronted. The emergency banking legislation which has been passed on the recommendation of the President of the United States was wisely conceived and has been effective in meeting these conditions. Since the banks reopened for the regular transaction of business and after the banking holidays, the deposits of the banks of the country have increased. Our deposits at the close of business March 3, before the banking holiday, were \$1,236,000,000, whereas at the close of business March 31, they amounted to \$1,306,000,000.

It is my firm conviction that each of the steps taken today by the boards of The Chase National Bank and Chase Securities Corporation are in the best interests of our organization and its shareholders. The Chase has a heritage of 56 years of service, and in keeping with its traditions recognizes its primary obligation as a commercial banking institution.

WINTHROP W. ALDRICH,

*Chairman Governing Board and President The Chase National Bank,  
Chairman of the Board Chase Securities Corporation.*

Mr. PECORA. Mr. Aldrich, let me ask you briefly: Were the various proposals that are set forth in this letter known as "Committee's Exhibit No. 3" of this date eventually adopted by the shareholders of the Chase National Bank and the Chase Securities Corporation?

Mr. ALDRICH. They were; yes.

Mr. PECORA. I think we might resume the examination of Mr. Wiggin.

The CHAIRMAN. We will have you later, Mr. Aldrich.

Mr. PECORA. Mr. Wiggin, in the statement made to the committee during this hearing by Mr. Bisbee he said in substance, among other things, when he was referring to the organization of the Chase Securities Corporation in 1917, that at that time a national bank could not under the law engage in the business of issuing and selling



securities. I believe that is a fair paraphrasing of your statement, Mr. Bisbee, is it not?

Mr. BISBEE. Generally, yes.

Mr. PECORA. Let me ask you, Mr. Wiggin: In view of that statement of Mr. Bisbee's, was it the purpose and intention at the time of the creation of the Chase Securities Corporation to organize that corporation among other reasons for the purpose of enabling the Chase National Bank, through the conduct and operation of the Chase Securities Corporation, to do things which the bank itself could not directly do under the law?

Mr. WIGGIN. That would not be a correct statement.

Mr. PECORA. What do you understand then to be the reason for the statement made by Mr. Bisbee when referring to the creation of the Chase Securities Corporation in 1917 that the bank could not engage in the securities business as such?

Mr. WIGGIN. It did not enable the bank to engage in the securities business.

Mr. PECORA. Not directly, of course, but did it not in effect through the medium of the capital setup of the Chase Securities Corporation enable the bank to utilize its funds either in whole or in part for the purpose of the business conducted by the Chase Securities Corporation, which was an investment or securities business?

Mr. WIGGIN. Well, it enabled the Chase Securities Corporation to do a securities business.

Mr. PECORA. And the Chase Securities Corporation was organized as an affiliate of the Chase National Bank in such fashion that the identity of the stockholders of the Chase Securities Corporation was the same as the stockholders of The Chase National Bank and in equal proportion?

Mr. WIGGIN. That is correct.

Mr. PECORA. Was that not done in order to do indirectly that which the bank could not do directly? Is that not a fair conclusion, Mr. Wiggin?

Mr. WIGGIN. Well, it was done to give those same stockholders the benefit of what we thought would be a profitable business.

Mr. PECORA. And that profitable business was the investment or securities business, was it not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And the stockholders of the bank would not have had the opportunity or advantage of engaging in that business except through the setup of an organization like the Chase Securities Corporation?

Mr. WIGGIN. That is correct.

Mr. PECORA. When the shareholders of the Chase National Bank, who also were the shareholders of the Chase Securities Corporation, held the special meeting on May 16 last were you represented at that meeting?

Mr. WIGGIN. I was not at the meeting. I was not represented except that I assume that my stock was voted by proxy. I sent a proxy for the meeting.

Mr. PECORA. Did you have notice as a shareholder of both of those corporations of the proposals embodied in this letter of Mr. Aldrich which has been read in evidence, and known as Committee's Exhibit

No. 3 of this date, which were to be presented for action to the shareholders at this special meeting of May 16 last?

Mr. WIGGIN. What was the date of that letter, Mr. Pecora?

Mr. PECORA. April 5, 1933.

Mr. WIGGIN. I think I was in Europe at the time. But I assume that we had notice of it. I have no personal recollection, you understand.

Mr. PECORA. Well, were you in Europe at the time of this special meeting of May 16 last?

Mr. WIGGIN. I think so.

Mr. PECORA. You sent your proxy as a shareholder of both of those companies?

Mr. WIGGIN. I presume so.

Mr. PECORA. And do you know whether those shares voted by you were voted in favor of these two proposals?

Mr. WIGGIN. Oh, I assume so.

Mr. PECORA. Did you give instructions that they should be so voted?

Mr. WIGGIN. I presume the proxy was sent.

Mr. PECORA. Well, did you approve of these proposals?

Mr. WIGGIN. I approved of backing up the management of the bank.

Mr. PECORA. Well, that hardly answers the question. The question was much more specific than that.

Mr. WIGGIN. I know.

Mr. PECORA. Did you approve of these proposals that are set forth in some detail in Mr. Aldrich's letter to the shareholders which had been put in evidence here?

Mr. WIGGIN. I do not know that I had seen the letter when the proxies were sent. The stock—there isn't much of it in my own name.

Mr. PECORA. Did not forms of proxies together with notices of the special meeting to be held on May the 16th reach you at the same time as this letter of April 5?

Mr. WIGGIN. I presume so.

Mr. PECORA. So that you had before you prior to the meeting held on May 16 as much knowledge at least as could be conveyed to you through the medium of this letter of Mr. Aldrich of these proposals and of the fact that they were going to be presented to the shareholders for their consideration and action on May the 16th?

Mr. WIGGIN. Yes.

Mr. CONBOY. Just to correct you a minute. The proxies were sent out a little later than the letter, Mr. Pecora.

Mr. PECORA. Yes.

Mr. CONBOY. But of course before the date of the meeting.

Mr. PECORA. Yes. Did you approve of the adoption of these proposals embodied in this letter, at the special meeting of May the 16th?

Mr. WIGGIN. I did by proxy.

Mr. PECORA. Do you recall who the proxy was?

Mr. WIGGIN. No; I do not.

Mr. PECORA. Did you by any chance have any discussion by way either of conversation or written communication with Mr. Aldrich

or any of the other executive officers of the bank prior to this meeting of May the 16th last with respect to these proposals?

Mr. WIGGIN. I do not recall any.

Mr. CONBOY. Did you want the names of those proxies, Mr. Pecora?

Mr. PECORA. If you can give them to us readily.

Mr. CONBOY. Eldon Bisbee, Harry P. Fish, and Harrison Tweed. You will find them there on the proxy at the bottom. I think you must have a photostatic copy.

Mr. PECORA. I have a photostatic copy; yes.

Mr. CONBOY. It is right at the bottom.

Mr. PECORA. Eldon Bisbee, Harry P. Fish, and Harrison Tweed. Were you in favor of these proposals, Mr. Wiggins?

Mr. WIGGIN. I gave my proxy for them.

Mr. PECORA. Well, what are we to understand from that answer? That you were in favor of the proposals or that you were not in favor of the proposals?

Mr. WIGGIN. I am absolutely in favor of backing up the management of the bank, and therefore I was in favor of it.

Senator COUZENS. You did not approve them with enthusiasm, though, did you?

Mr. WIGGIN. I approved them.

Senator COUZENS. Not with enthusiasm?

The CHAIRMAN. With reservations.

Mr. PECORA. Did you approve of these proposals in principle and apart from the question of backing up the management?

Mr. WIGGIN. No; I do not think so.

Mr. PECORA. Did you disapprove of the principle of these proposals in effect as a matter of personal judgment?

Mr. WIGGIN. I had not changed my opinion since the expression in the report in January that I made. But I have absolute confidence in the management of the bank, and I am for them. When they decide that is the thing to do I vote with them.

Mr. PECORA. Is it fair to say that in May or this year you were the owner of a substantial number of shares of the bank and of the Securities Corporation?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Do you recall how many shares of stock in both of those institutions you owned on that date?

Mr. WIGGIN. Personally?

Mr. PECORA. Yes, sir.

Mr. WIGGIN. I cannot tell you exactly.

Mr. PECORA. Would the figure of 67,000 shares about represent the extent of your stock ownership?

Mr. WIGGIN. I should say so. That is my personal ownership.

Mr. PECORA. In your personal name?

Mr. WIGGIN. Yes; I think so.

Mr. PECORA. And in addition were there members of your family who were owners of a substantial number of these shares at that time?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. How many shares other than the 67,000 shares that you owned in your name were owned at that time by members of your family?



Mr. WIGGIN. I cannot answer it offhand.

Mr. PECORA. Can you approximate it?

Mr. CONBOY. Do you want the total family holdings?

Mr. PECORA. If you can give it to us, or a fair approximation if you cannot give us the exact figure.

Mr. CONBOY. Something in excess of 117,000 shares.

Mr. PECORA. Is that inclusive or exclusive of the 67,000 shares that were registered in the name of Mr. Wiggin individually?

Mr. WIGGIN. Inclusive.

Mr. CONBOY. It includes whatever Mr. Wiggin owned personally, whether his figure is an accurate figure or not. That may be subject to correction, but that is the best information that we can furnish you at the moment.

Mr. PECORA. These proposals involved somewhat of a radical departure from the policies of the two institutions, namely, the bank and the securities corporation that had been followed under your leadership of those institutions, did they not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Will you tell this committee candidly your judgment as to whether those proposals, even though you voted for them by proxy or otherwise, represent in your opinion a beneficial change or departure from your preexisting policies?

Mr. WIGGIN. Beneficial change to whom, Mr. Pecora?

Mr. PECORA. I beg your pardon?

Mr. WIGGIN. Beneficial change to whom?

Mr. PECORA. Well, I presume to the shareholders.

Mr. WIGGIN. I do not know that my opinion is worth much——

Mr. PECORA. You have had a very extensive experience in banking and finance, and I think your opinion would have value from that standpoint alone.

Mr. WIGGIN. Changes have come pretty rapidly in the past year, and very probably if I were still the senior officer of the bank, I would have done the same thing.

Mr. PECORA. Meaning by that what? That you would continue the policies?

Mr. WIGGIN. No.

Mr. PECORA. Or that you would have been in favor of the departure from these policies?

Mr. WIGGIN. Of course, I do not know what I would have done. I say the changes have been many, and I might have done exactly what Mr. Aldrich has recommended. I do not know. Up to the time that I left the bank I did not think that it was necessary to make such a separation.

Mr. PECORA. When did you leave the bank, to use your own expression?

Mr. WIGGIN. The second Tuesday in January.

Mr. PECORA. Of this year?

Mr. WIGGIN. Of this year.

Mr. PECORA. At that time did you completely sever your connections with the bank in any capacity other than as a shareholder?

Mr. WIGGIN. I was still a director and member of the executive committee.

Mr. PECORA. At that time was any action taken by the board either of the bank or of the Securities Corporation that continued you in the employ of the bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What was that action?

Mr. WIGGIN. May I supply the minute that was passed at the meeting—

Mr. PECORA. Answer the question in any way you wish that will serve as a complete answer.

Mr. WIGGIN. Then I will not have to make any changes if I just give you the printed document. I think, Mr. Pecora, you have a photostat of the thing. Perhaps I can use that and identify it.

Mr. CONBOY. You have a copy there, Mr. Pecora, and Mr. Wiggin will refer to this copy also. A copy has been furnished to you.

Mr. PECORA. Yes; I have a copy.

Mr. WIGGIN. Now let me have the question, if you will, Mr. Pecora.

Mr. PECORA. Let the reporter read it.

(Thereupon the following was read by the reporter as above recorded:)

Mr. PECORA. At that time was any action taken by the board either of the bank or of the Securities Corporation that continued you in the employ of the bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What was that action?

Mr. WIGGIN. It took the form of resolutions by the board, by the committee.

Mr. PECORA. When was that resolution adopted?

Mr. WIGGIN. December 21, 1932.

Mr. PECORA. Who adopted it?

Mr. WIGGIN. I think the executive committee.

Mr. PECORA. Of the Chase National Bank?

Mr. WIGGIN. Of the Chase National Bank.

Mr. PECORA. Did that resolution read as follows [reading]:

*Resolved*, That in order to discharge in some measure the obligations of this bank to Mr. Wiggin and in anticipation that he will be always prepared, when consulted by them, to assist the principal officers and the board of directors of the bank with advice upon important matters affecting its welfare and management, after the expiration of his present term of office, he be paid during his life a salary or compensation which, during the year 1933, shall be at the rate of \$160,000 per year and, thereafter, shall be \$100,000 per year.

Mr. WIGGIN. That is the resolution. There is a preamble, or another resolution that has some bearing on the same matter. Here are the minutes of the meeting.

Mr. PECORA. I see no preamble in the copy of the minutes which has been furnished to me, Mr. Wiggin. As a matter of fact, the entry on the minutes of that meeting of December 21, 1932, immediately preceding the resolution which I have read, is as follows:

After further discussion, upon motion of Mr. Ecker, seconded by Mr. Debevoise, the following resolution was unanimously adopted:

And then follows the resolution as I read it into the record, without any preamble.

Mr. WIGGIN. "Preamble" is not the right word.

Mr. CONBOY. I think what Mr. Wiggin refers to is the minute which precedes that, which refers to the matter which the executive



committee was discussing, and after discussion of which that resolution was adopted. That is what he referred to as the preamble. You have that there.

Mr. WIGGIN. I do not think "preamble" is the right word. I should have used some other word.

The CHAIRMAN. Have you a copy of the minutes there?

Mr. CONBOY. We have a copy.

The CHAIRMAN. Why not put that in the record?

Mr. WIGGIN. May I put this in the record?

Mr. PECORA. Yes. Let me see it, please.

Mr. WIGGIN. Yes, sir [handing paper to Mr. Pecora].

Mr. CONBOY. Mr. Pecora, you have the committee minute there, have you not, including the letter from Mr. Wiggin to the executive committee?

Mr. PECORA. Yes.

Mr. CONBOY. If I may make the suggestion, why not put the whole thing in—Mr. Wiggin's letter to which the minute refers, and the minute to which the resolution refers?

Mr. PECORA. The statements in the letter referred to, as you know, are largely in the nature of self-serving declarations.

Mr. CONBOY. It was what the executive committee had before it.

Mr. PECORA. Very well. I will read them into the record.

The CHAIRMAN. Are you still a shareholder and director in the bank and in the corporation?

Mr. WIGGIN. I am still a shareholder. I am not a director.

Mr. PECORA. At this meeting of the executive committee of the Board of Directors of The Chase National Bank held on December 21, 1932, did you cause to be presented to that meeting a letter bearing that same date, namely, December 21, 1932, addressed to the said executive committee?

Mr. WIGGIN. I did.

Mr. PECORA. I have before me a carbon copy, or what purports, rather, to be a carbon copy, a true and correct copy, of that letter. I will read from that copy, and when I conclude the reading of it will you tell the committee if that is the letter which you caused to be presented to the executive committee of the bank's board on that date? [Reading:]

DECEMBER 21, 1932.

TO THE EXECUTIVE COMMITTEE, CHASE NATIONAL BANK,

GENTLEMEN: I shall be sixty-five years old on February 21st, next. The annual meeting of the Bank will take place January 10. I think it is appropriate, and I accordingly request, that at the annual meeting I be not reelected as Chairman of the Governing Board.

I have had this step in mind for several years. The Bank itself has under consideration a very wise plan in which officers and employees shall be retired at the age of sixty-five, and I shall be merely anticipating its practical operation.

My pride in the Chase National Bank is the supreme satisfaction of my business life. At a moment like this I may be permitted to refer to one or two elements which contribute to that feeling. Not only in its size, but in the strength of its official and working personnel, and in the scope of the interests represented by its 83,000 stockholders and its 150,000 depositors, the position of the Bank has become unique.

During my twenty-nine years' association with the Chase I have been privileged to play an intimate part in its growth. I have always had absolute faith in the Bank and in its future. I invested a large share of my earnings in it. I became president following the wise administrations of Henry W. Cannon and

A. Barton Hepburn. I also became the largest stockholder, and today the major portion of the fortune of myself and my family is invested and will continue to be invested in the stock of the Bank.

As the Chase grew, I became convinced of the importance of broadening the stock ownership and of associating with us large interests who, by reason of their stock holdings, would become sources of increased influence and strength. It was, accordingly, an event of outstanding consequence when in 1930, through the merger with the Equitable Trust Co., John D. Rockefeller, Jr., as the largest holder of Equitable stock, became, through the ensuing exchange of stock, the largest stockholder in the Chase. The identification of these interests with the bank, together with the increasing scope of the other stockholding interests, is representative of the larger phases into which the life of the Chase has entered.

The various mergers with other institutions have added to the personnel of the Chase National Bank experienced ability and wisdom of the highest order. I would like to pay particular tribute to John McHugh, Chairman of the Executive Committee, who came to us following the merger with the Mechanics & Metals National Bank, and Charles S. McCain, Chairman of the Board, who came following the merger with the National Park Bank, both of whom have added conspicuously to the strength of our organization. Following the merger with the Equitable Trust Co., Winthrop W. Aldrich, president of that institution, became President of the Chase National Bank and later Vice Chairman of its Governing Board. It is impossible for me to speak with adequate appreciation of what the coming of Mr. Aldrich has meant to the Bank, and it is a source of infinite satisfaction to me that in the years to come the Bank may contemplate having the benefit of his character, ability, and sound judgment in guiding its affairs.

Convinced as I am of the wisdom of the step I am taking and of reducing the strain upon myself incident to increasing years, I do this with great personal regret. My heart and my energies have been concentrated for many years in promoting the growth, welfare and usefulness of the Chase National Bank. I have seen it develop into an institution whose public service is commensurate with its magnitude. I believe in the Bank and in its increasing possibilities. For its officers and employees I have, and will always have, sentiments of deep personal affection. I need scarcely add that as long as I live the results of my experience and the support of every effort which I can exert will be contributed toward the progress of the Chase National Bank.

ALBERT H. WIGGIN.

Is that the letter that you caused to be sent?

Mr. WIGGIN. Correct.

Mr. PECORA. Now, from the extract that I have of the regular meeting of the executive committee of the Chase National Bank held on December 21, 1932, there follows, after this letter, this (reading):

Thereupon, Mr. Ecker suggested that the Committee might desire to discuss his statement and take some action with reference thereto and that this could be done more appropriately in his absence, whereupon Mr. Wiggin withdrew from the meeting.

Thereafter the matter was discussed and, upon motion duly made and seconded, the following minute was unanimously adopted:

The executive committee of the Chase National Bank has received with keen regret the intimation—

Something more than an intimation—

from Albert H. Wiggin of his desire to retire as Chairman of its Governing Board. The services of Mr. Wiggin not only to this institution, but to banking throughout the world, have been of a preeminent character. The Chase National Bank is in no small measure a monument to his energy, wisdom, vision, and character. When he became President of the Bank in 1911 its capital, surplus, and undivided profits amounted to \$12,953,397. Today its capital funds amount to \$266,335,062. The growth of the Bank under his leadership has in all other respects been upon a corresponding scale. With the growth of the Bank he has also been instrumental in effectively broadening the basis of the stock ownership in the institution to include interests whose co-operation and influence have added immeasurably to the strength of the Bank.

He has also developed, with the steadily enlarging magnitude of the Bank, a personnel in keeping with the high responsibilities involved in directing the affairs of so large an institution. We earnestly hope that Mr. Wiggin will continue indefinitely to remain a member of the Board of Directors and of the Executive Committee of the Bank. We are also deeply gratified that his assurances of continued cooperation will give the Bank the opportunity to avail itself of his great experience and wise guidance in dealing with many of the large interests and problems of the Bank, particularly in connection with our important foreign relations toward which he has already made so able a contribution.

The cashier was requested to have a copy of the minute suitably engrossed, certified, and presented to Mr. Wiggin.

After further discussion, upon motion of Mr. Ecker, seconded by Mr. Deboise, the following resolution was unanimously adopted.

Then follows the resolution I have already read, voting you a salary for life at the rate of \$100,000 a year. Is that correct?

Mr. WIGGIN. Yes.

Mr. PECORA. That is what you wanted in the record, Mr. Conboy?

Mr. CONBOY. That is the complete record.

Mr. PECORA. Now, you have accepted, since the adoption of this resolution, the benefits of the action implied in the resolution, namely, a salary at the rate of \$100,000 a year?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Will you tell the committee whether or not, prior to the special meeting of the shareholders of the bank and of the securities company held on May 16 last, you rendered any service by way of the expression of advice or judgment to the governing authorities of the bank with respect to the wisdom of the proposals embodied in Mr. Aldrich's letter of April 5 last?

Mr. WIGGIN. I was not consulted.

Mr. PECORA. Have you rendered any other service since the adoption of this resolution?

Mr. WIGGIN. Daily.

Mr. PECORA. Can you describe it?

Mr. WIGGIN. I think so.

Mr. PECORA. Will you please do so?

Mr. WIGGIN. I have a very large acquaintance and friendship with the customers of the bank, and they constantly come to me, and I think I am a direct influence in holding a very large business for the bank.

Mr. PECORA. What kind of business is that—maintenance of deposit accounts with the bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Would you say that the principal service you have rendered to the bank since the adoption of this resolution last December, at which time this life salary at the rate of \$100,000 a year was voted to you, consisted in holding these depositors of the bank?

Mr. WIGGIN. Largely.

Mr. PECORA. Can you refer the committee to any other service that you have rendered since the enactment and adoption of this resolution?

Mr. WIGGIN. I think the officers have all felt free and have on many occasions consulted me on credits.

Mr. PECORA. But they did not consult you with regard to the making of this departure from the old policies, the preexisting policies



of the bank and the securities corporation, that was effected on May 16 last?

Mr. WIGGIN. I do not recall it.

Mr. PECORA. As a very large shareholder in the bank and the securities corporation, apart from any other consideration, would you not feel that it was directly to your interests to see that these deposit accounts in the bank were maintained?

Mr. WIGGIN. Repeat that, will you? I want to get this right.

Mr. PECORA. The reporter will read it.

(The reporter read the pending question.)

Mr. WIGGIN. I think as a shareholder I am better off with deposits, certainly.

Mr. PECORA. You did not look upon the salary of \$100,000 a year as calling for the exercise of any special efforts on your part to promote the interests of the bank, did you?

Mr. WIGGIN. Oh, yes; I think so.

Mr. PECORA. You still think so?

Mr. WIGGIN. I think so. And besides that, you know, there was all this foreign business, and I was being sent over on the foreign business representing all the banks in America, and keeping up the relationship with the Chase National.

Mr. PECORA. Do you think that the shareholders of the Chase Bank should be called upon to compensate you for services you have rendered for all the banks with regard to this so-called "foreign" business?

Mr. WIGGIN. I did not mean to put it that way. I did go over representing the banks on a particular transaction.

Mr. PECORA. That is, this German standstill agreement?

Mr. WIGGIN. But I also, of course, always had the interests of the Chase very much to the front in all those contacts.

Mr. PECORA. Would the maintenance, without impairment, of those interests be a matter of special concern to you because of the salary, Mr. Wiggin?

Mr. WIGGIN. I think so.

Mr. PECORA. And without the salary you would not have the incentive or the inducement to protect those interests?

Mr. WIGGIN. I would have the inducement and the interest but I would not feel that I was to be at the beck and call of the bank. Now I do.

Mr. PECORA. In view of that, Mr. Wiggin, will you tell us whether or not, prior to this meeting of December 21, 1932, at which this letter of yours was read to the executive committee and this resolution was adopted allowing you or granting you this \$100,000 a year salary for life, there had been any discussion by you with any of the members of the executive committee with regard to your being allowed or granted for life or otherwise, any salary in order to give you what you regard as a proper compensation for continuing your interest in the bank and promoting its best interests?

Mr. WIGGIN. It was discussed with several of the directors.

Mr. PECORA. Did you personally discuss it with the directors?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. With whom?

Mr. WIGGIN. Mr. Aldrich, Mr. Debevoise, Mr. Ecker, and Mr. Jeremiah Milbank.

Mr. PECORA. Did they constitute a majority of the members of the executive committee?

Mr. WIGGIN. No, sir.

Mr. PECORA. Did they constitute its leading spirits at the time?

Mr. WIGGIN. They were all leading spirits on that board.

Mr. PECORA. Who took the initiative in those discussions, Mr. Wiggin, you or any of the gentlemen whose names you have just mentioned?

Mr. WIGGIN. I do not know that anyone took the initiative. It was received with favor by all.

Mr. PECORA. I assume that somebody first brought up the subject for discussion and eventually it received favorable consideration at the hands of all, is that so? Is that a fair assumption?

Mr. WIGGIN. I had discussed it with Mr. Aldrich before the meeting of this committee.

Mr. PECORA. Mr. Aldrich was then the chairman of the governing board, was he?

Mr. WIGGIN. No. He was the president of the bank.

Mr. PECORA. Did you recognize him, then, as being the chief executive officer of the bank?

Mr. WIGGIN. I was chairman of the governing board at that time. This was before the January meeting.

Mr. PECORA. Before December 21.

Mr. WIGGIN. Yes. I was still chairman of the governing board. Mr. Aldrich was president of the bank, and vice president of the governing board.

Senator ADAMS. You had, of course, a board of directors, and you had an executive committee, and you had a governing board.

Mr. WIGGIN. Yes.

Senator ADAMS. What were the relative duties and respective authorities?

Mr. WIGGIN. Of course, the board of directors is supreme, next to the stockholders. The board of directors delegates its authority to a smaller committee, which meets more frequently, known as the executive committee. The governing board consisted at that time of the senior officers of the bank, so that we could keep in touch with each other, and each one could know what was going on.

Senator ADAMS. What authority did the governing board have, as a board?

Mr. WIGGIN. They were the executive officers of the bank.

Senator ADAMS. Did it have authority as a board?

Mr. WIGGIN. Not as a board; no. Everything was reported to the executive committee or the board. Everything that the governing board did was in turn reported back. They were simply the officers of the bank, and the governing board was meeting each morning to discuss and decide things.

Senator ADAMS. It was merely a collection of the——

Mr. WIGGIN. Senior officers.

Senator ADAMS. A collection of the senior officers; and had no functions as a board.

Mr. WIGGIN. No; I do not know that they did.

Mr. BISBEE. It was a consulting body, Senator.

Mr. WIGGIN. It was a joint body of consultants.

Senator ADAMS. That is what I was trying to find out, whether, by action or resolution of the governing board, it had any authority.

Mr. ALDRICH. Senator, they had no power.

Mr. WIGGIN. In connection with services rendered and being rendered, Mr. Pecora, I am reminded that perhaps I should speak of the progress made in the German debt where, partly due to my efforts, the Chase National Bank interest in the German debt has been reduced from a large amount, over \$100,000,000, to less than \$40,000,000.

Mr. PECORA. The Chase Bank's interest in that German loan had been effected while you were the executive officer at the head of the bank, had it not?

Mr. WIGGIN. Yes.

Mr. PECORA. So that in calling attention——

Mr. CONBOY. I do not think he quite finished his answer.

Mr. PECORA. I did not know that he had not.

Mr. WIGGIN. The German business in the bank came from two sources. It came from the Chase Bank, and it came from the Equitable Trust. At the time of the merger the total of the German debt to the combined institutions was \$89,000,000, \$25,000,000 of it from the Chase and \$64,000,000 from the Equitable. There were certain commitments on lines, so that that was later increased, and then gradually reduced, so that at present it is under \$40,000,000.

Mr. PECORA. That indebtedness, or rather that interest in the German loan of the Chase bank, had been effected during the time that the bank was under your general direction as its chief executive officer, had it not?

Mr. WIGGIN. We inherited a large amount from the mergers, and it then came into the Chase, of which I was the senior officer.

Senator COUZENS. But you approved of the mergers?

Mr. WIGGIN. Oh, certainly; absolutely.

Mr. PECORA. Now——

Mr. WIGGIN. We did not have to take it.

Mr. CONBOY. He has not got quite to answering your question. Did you want an answer to the question.

Mr. PECORA. I asked him for that purpose.

Mr. WIGGIN. Will you please read it?

(The reporter read the pending question.)

Mr. WIGGIN. I think I have answered that.

Mr. CONBOY. I thought it referred to the reduction of the debt and not to the assumption of it.

The CHAIRMAN. You said you represented all the banks in Europe with reference to the German debt.

Mr. WIGGIN. Banks in the United States.

The CHAIRMAN. And when you went to Europe you represented all the banks?

Mr. WIGGIN. Yes.

The CHAIRMAN. What did the German debt amount to, to all the banks?

Mr. WIGGIN. At the present time?

The CHAIRMAN. At that time.

Mr. WIGGIN. I have been over a number of times. The last time I went over it was between \$400,000,000 and \$500,000,000.



The CHAIRMAN. To all the banks?

Mr. WIGGIN. Yes.

The CHAIRMAN. And the Chase had about \$89,000,000 of that?

Mr. WIGGIN. No, not at that time. I cannot tell you at that exact date what they had.

Mr. ALDRICH. Mr. Chairman, may I interrupt?

Mr. WIGGIN. Yes.

Mr. ALDRICH. As far as the Chase Bank is concerned, at the time of the beginning of the standstill agreement we had \$72,000,000 of German obligations, of which a very small amount of security was indebtedness to us of commercial banks and the German Government. That has since been reduced, during a period of a year and a half, to approximately \$40,000,000.

The CHAIRMAN. When did you go over to Europe, Mr. Wiggin, for the purpose of adjusting these matters?

Mr. WIGGIN. I first went over at the time of the Hoover moratorium, July 1, 1930. That was following the London Conference.

Senator ADAMS. Did you go over before or after the moratorium?

Mr. WIGGIN. It was after the moratorium, but resulting from the London conference that had brought about the moratorium and had asked that an international committee study the subject. That was in July 1930. Then there have been various meetings following.

Senator COUZENS. Going back to the chairman's question, when you first went over, what was the aggregate debt to the American banks?

Mr. WIGGIN. I will have to get that for you. It was a very large debt, as I understand it. I can approximate it.

Senator COUZENS. If you will, please.

Mr. WIGGIN. I would have to study this thing, but I should say approximately \$800,000,000.

The CHAIRMAN. I thought you said \$400,000,000 or \$500,000,000.

Mr. WIGGIN. The last question, I understood, Senator, was with respect to the first time I went over.

The CHAIRMAN. Was the moratorium declared in Germany before you went over?

Mr. WIGGIN. The Hoover moratorium was June 30, 1930, if I remember rightly.

The CHAIRMAN. You got over there when?

Mr. WIGGIN. In July 1930.

The CHAIRMAN. Who was your representative in Germany at that time, at the time the moratorium was declared?

Mr. WIGGIN. The representative of the the Chase bank, you mean?

The CHAIRMAN. Yes.

Mr. WIGGIN. I do not think there was anybody representing the Chase bank there at that time.

The CHAIRMAN. Did you have a Mr. Gannon there?

Mr. WIGGIN. Mr. Gannon is in London. His headquarters are in London. He makes frequent trips to Berlin.

The CHAIRMAN. Do you know when the standstill agreement was signed with Austria?

Mr. WIGGIN. I would have to look it up, Senator.

The CHAIRMAN. Were you in favor of that standstill agreement?

Mr. WIGGIN. Yes, sir.



The CHAIRMAN. And in favor of the moratorium also?

Mr. WIGGIN. Yes, sir.

Senator COUZENS. What was your salary, Mr. Wiggin, when you resigned and took \$100,000 in lieu of your compensation?

Mr. WIGGIN. \$202,000.

Senator COUZENS. \$202,000 per year?

Mr. WIGGIN. Yes.

Senator COUZENS. Did you have any bonuses in addition to that salary?

Mr. WIGGIN. We have had in years past, but did not at that time.

The CHAIRMAN. Were you the head of the committee which arranged the German standstill agreement?

Mr. WIGGIN. Yes, sir.

The CHAIRMAN. Were you in that standstill agreement before the German agreement was reached?

Mr. WIGGIN. You mean before the Hoover moratorium?

The CHAIRMAN. Yes.

Mr. WIGGIN. No. That followed, Senator. The moratorium came first, and the standstill agreement followed.

The CHAIRMAN. You handled that matter yourself, Mr. Wiggin, didn't you?

Mr. WIGGIN. I handled it representing the American interests; yes, sir. You understand that there was an international committee with the various countries represented.

The CHAIRMAN. What was the situation that developed before the agreement was reached?

Mr. WIGGIN. Well, that is a hard question to answer. I do not know how to answer that.

The CHAIRMAN. How was that?

Mr. WIGGIN. I do not know how to answer that question.

The CHAIRMAN. Well, what was the situation which had developed before the agreement was reached?

Mr. WIGGIN. Well, you will remember what happened. Germany said they could not pay. There was a conference in London at which America was represented by the Secretary of the Treasury. That London conference asked to have an international committee appointed to study the situation, to see what could be done, what was best to be done under the circumstances. The Federal Reserve Bank asked me to go over and represent American interests. We investigated, and we found or we satisfied ourselves that it was against the interests of creditors to press for immediate payment, and therefore an extension agreement was written up, the extension agreement providing for certain payments at certain maturities, not dissimilar to what is done in the case of any private enterprise in order to handle a situation such as that when it arises. Do I make myself clear?

The CHAIRMAN. Well, was there any money used in bringing about that agreement?

Mr. WIGGIN. No, sir.

The CHAIRMAN. Was there any money paid to anybody respecting the reaching of the agreement?

Mr. WIGGIN. No, sir.

The CHAIRMAN. What was your position in the case of both Austria and Germany at that time?

Mr. WIGGIN. I had nothing to do with handling the details. The bank had a small interest in the Hungarian situation and a small interest in the Austrian situation, a comparatively small interest.

Mr. PECORA. Mr. Wiggin, going back to this letter of December 21, 1932, which you submitted to the executive committee of the board of directors of the bank, how long before the writing of that letter had you contemplated retiring from active service as an officer of the bank?

Mr. WIGGIN. I had contemplated retiring at various dates for many years back, as far as that went.

Mr. PECORA. Well, it finally crystallized on December 21, 1932, in the writing of this letter. Now, prior to that you said you had some conversation with Mr. Aldrich and other members of the executive committee about your prospective retirement and about your being paid a salary for services on your retirement.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, did you take the initiative in those discussions?

Mr. WIGGIN. I do not know. I do not think so, but I may have.

Mr. PECORA. Well, was Mr. Ecker one of the members of the board, or of the executive committee of the board of directors, with whom you had such discussions?

Mr. WIGGIN. Well, I discussed it with them all together, not separately.

Mr. PECORA. Is that Mr. Frederick Ecker, the president of the Metropolitan Life Insurance Co.?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Did you ask those gentlemen prior to December 21, 1932, or did you tell them that it would be fair and proper in your opinion on and after your retirement as an active officer of the bank, to receive a substantial annual salary for the rest of your life for services that you would continue to render by way of giving advice outside to the bank's officers?

Mr. WIGGIN. Did I suggest it to them?

Mr. PECORA. Yes.

Mr. WIGGIN. I do not think so. It is very difficult to remember what happens in a general conversation, but I discussed it with Mr. Aldrich, and we then discussed it with this committee I spoke of, and I cannot be sure but I would imagine that probably Mr. Aldrich made the proposition, that he put the proposition before the committee. Or I might have done so, but I do not think so.

Mr. PECORA. In any of those discussions was any specific amount mentioned by anybody as a proper compensation by way of annual salary to you for the rest of your life?

Mr. WIGGIN. The amount that we have discussed here was the one that was mentioned, \$100,000 a year.

Mr. PECORA. Who first mentioned that amount as proper compensation?

Mr. WIGGIN. At this meeting?

Mr. PECORA. At any time. At the outset, I mean.

Mr. WIGGIN. I think I did.

Mr. PECORA. Did you find any dissension in the views of the gentlemen with whom you discussed it?

Mr. WIGGIN. On the contrary, I found enthusiasm for it.

Senator TOWNSEND. Was that a substantial reduction on your previous salary?

Mr. WIGGIN. Less than half.

Mr. PECORA. What was your salary as the executive head of the bank immediately prior to your retirement?

Mr. WIGGIN. It was \$202,000.

Mr. PECORA. Did you say \$202,000?

Mr. WIGGIN. Yes.

Mr. PECORA. The salary was \$220,000, wasn't it?

Mr. WIGGIN. No.

Mr. PECORA. Had you in addition to that received any bonuses?

Mr. WIGGIN. In times past, yes; but not at this time.

Mr. PECORA. Well, I will take this up in due course in greater detail than I will now. But at this meeting of December 21, 1932, did you learn, prior to the adoption of the resolution voting you that salary of \$100,000 a year for life, that Mr. Ecker or any other member of the board had prepared the minute which was read and unanimously adopted at this meeting, the minute which begins as follows:

The executive committee of the Chase National Bank has received with keen regret the intimation from Mr. Albert H. Wiggin of his desire to retire as chairman of its governing board.

Mr. WIGGIN. The question is, Did I know that a minute was prepared?

Mr. PECORA. Yes.

Mr. WIGGIN. I knew that they were going to adopt a minute.

Mr. PECORA. So that your withdrawal from the meeting at the time when this minute was submitted for action was largely a matter of form, wasn't it, a sort of ideal ceremony?

Mr. WIGGIN. No; I don't think so, Mr. Pecora. There might have been some director or member of the committee who might have objected, you know, and he might have felt himself somewhat embarrassed to discuss it.

Mr. PECORA. I thought you said all the members of the board at the meeting where you discussed this life compensation were not only favorable but enthusiastic for it.

Mr. WIGGIN. That is so, but I only discussed it with the committee, and they were only four persons.

Mr. PECORA. Now at the time that this minute was prepared had you discussed with the person or persons who actually drafted it the facts embodied in the minute?

Mr. WIGGIN. Well, I don't know. I don't think so. I don't think I knew what was in the minute until it was read.

Mr. PECORA. Well, let me refer particularly to this extract from the minute:

The Chase National Bank is in no small measure a monument to his energy, wisdom, vision, and character. When he became president of the bank in 1911 its capital, surplus, and undivided profits amounted to \$12,953,397. Today its capital funds amount to \$266,335,062.

Had you discussed those figures with anyone?

Mr. WIGGIN. No.

Mr. PECORA. But you did have a discussion with someone in regard to this minute before its presentation?



Mr. WIGGIN. No; not any discussion. I simply knew, or supposed I knew, that they were going to prepare a complimentary minute.

Mr. PECORA. According to our research based upon figures and records of the bank, the bank's capital stock, surplus, and undivided profits as of December 31, 1928, aggregated the sum of \$137,490,-814.74, and during the 4 years and 7 months immediately following that date, bringing it down to July 31 of this year, there had been increases in the capital of the bank by various means, and as a result of those increases the gross capital funds and earnings aggregated a total of \$503,196,086.57, as of July 31, 1933.

Mr. WIGGIN. What is the figure?

Mr. PECORA. The increases as a result of what I have said, increases in the capital stock, surplus, and earnings account of the bank during the 4 years and 7 months following the end of December of 1928, the gross amount of those increases had brought the gross capital funds and earnings account up to \$503,196,086.57.

Mr. WIGGIN. I do not get that figure.

Mr. PECORA. Well, let me put it in more detailed form. Are you familiar with the fact that at the end of 1928 the bank's capital stock, surplus, and undivided profits aggregated \$137,490,814.74?

Mr. WIGGIN. I will have to get that.

Mr. CONBOY. I was looking at something else, Mr. Pecora. Will you let the committee reporter repeat that question?

Mr. PECORA. Certainly.

(The last question was read.)

Mr. WIGGIN. Yes, sir; I think that is right.

Mr. PECORA. Now, thereafter from time to time up to July 31 of this year the increases in the capital funds of the bank had been made as follows: Cash provided by stockholders and others, \$61,479,-981.72; by exchanges of Chase Bank stock for stocks of other banks absorbed by Chase and merged with Chase, \$167,804,905.67; and total capital increases obtained thereby amounting to \$229,284,887.39. And, in addition, earnings as reported to stockholders aggregating \$136,420,384.44, up to and including July 31, 1933.

Mr. WIGGIN. Well, now, what is your question?

Mr. PECORA. Are you familiar with those facts?

Mr. WIGGIN. No; because I haven't followed the figures since last December. But we can easily get them for you.

Mr. CONBOY. We are willing to assume those figures to be correct, Mr. Pecora, subject to correction.

Mr. PECORA. All right. Subject to correction, let us accept them for the time being. Is that the understanding now?

Mr. CONBOY. Yes.

Mr. WIGGIN. There is something out in these figures, Mr. Pecora.

Mr. CONBOY. Of course; in these figures you have not deducted cash dividends paid nor cash reserves set up.

Mr. PECORA. I am coming to that.

Mr. CONBOY. I think that is the reason Mr. Wiggin is somewhat confused about the size of the figures you have been reading.

Mr. PECORA. I think I can abbreviate the inquiry in this way: Mr. Wiggin, I show you a carbon copy of a typewritten document which was furnished to us by the Chase National Bank, and it—

Mr. CONBOY (interposing). That was prepared by your accountants, Mr. Pecora?



Mr. PECORA. Yes; it was prepared by us, but submitted to the officers of the Chase National Bank, and as I understand it, approved by them.

Mr. CONBOY. We received it yesterday afternoon at 3 o'clock. I do not know about approval of it yet, Mr. Pecora. It has only just now been presented to me.

Mr. PECORA. Well, then, you may take it up during the recess hour and we will see if we cannot agree on it.

Mr. CONBOY. I think that might be just as well. I cannot say off-hand, because I do not know about all of the contents of the paper, whether there is any inaccuracy in it. But I will assume that your accountants would prepare an accurate statement.

Mr. PECORA. Is Mr. Aiken here?

Mr. CONBOY. I think perhaps he is.

Mr. PECORA. I would suggest, Mr. Conboy, that during the noon recess you confer with Mr. Aiken, because I have before me a work sheet embodying those details, made by us, and it has been certified to as being correct by Mr. Aiken under date of October 14, 1933. I will now show you that work sheet bearing his certificate.

Mr. CONBOY. Do you want me to get that during the noon recess?

Mr. PECORA. You might just show it to him now.

Mr. CONBOY. Do you want me to show it to him now and see what he has to say about it?

Mr. PECORA. If you will. And perhaps we will not have to postpone this examination until after recess.

Senator COUZENS. If I understood correctly, Mr. Aiken is the comptroller of the Chase National Bank.

Mr. PECORA. He is a vice president and a comptroller.

Mr. CONBOY. My information is, Mr. Pecora, that these pencil figures were checked when they were furnished to Mr. Aiken on Saturday of last week, but that we have received a typewritten statement, at 3 o'clock yesterday afternoon. Now, manifestly, no opportunity has been afforded us for checking the pencil figures, which pencil figures are in your possession, with the typewritten statement. If you want us to do that, we will be glad to do so.

Mr. PECORA. Is this Mr. Aiken's signature in the lower right-hand corner of this paper?

Mr. CONBOY. Yes; it is.

Mr. PECORA. Did he intend to indicate by that signature that those figures are correct?

Mr. CONBOY. I assume he intended it to indicate that he found them correct or he wouldn't have approved that pencil statement.

Mr. PECORA. The typewritten sheet, as I understand, is taken from that pencil sheet.

Mr. CONBOY. I will be very glad to accept your statement to that effect, but I thought you were putting it up to us to verify it, and we haven't had an opportunity. You had the pencil memorandum in your possession, and we only got the typewritten statement on yesterday, and so we haven't had an opportunity to compare the two.

Mr. PECORA. During the recess I will let you have that pencil sheet.

Mr. CONBOY. If you say they are the same thing, we will accept that statement now.

Mr. PECORA. Well, I will say that, while I did not make the typewritten transcript, I have every reason to believe that those persons who did make it made an accurate transcript.

Mr. CONBOY. Will you let me look at it for a second in connection with this paper?

Senator COUZENS. Mr. Chairman, why not let this go over until after lunch. There is no reason for holding up the examination to check them.

Mr. PECORA. That will be all right.

The CHAIRMAN. We will take that up after recess, and you may make your comparison during the recess hour.

Mr. CONBOY. We will be glad to do that.

Mr. PECORA. Now, at the time of the adoption of this resolution, December 21, 1932, do you know whether or not the Chase National Bank, and its investment affiliate, the Chase Securities Corporation, had sustained losses running into the hundreds of millions of dollars, which were indicated by write-downs or mark-offs of securities values?

Mr. WIGGIN. I know that losses have been very large in the last previous 3 years, but I can not give you the figure offhand.

Mr. PECORA. And against those losses very large reserves had been set up.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Would you say that those reserves so set up, up to and including the 31st of July 1933, aggregated the sum of \$212,-233,694.22?

Mr. WIGGIN. I have no way of verifying that figure. You are now 6 months later than when I was connected with the bank.

Mr. PECORA. Well, that is one of the figures I will ask you to check up on with Mr. Aiken during the recess which will shortly follow. And in addition thereto will you check up what I understand to be the fact, that during that period the total earnings reported to the stockholders of the bank were \$136,420,384.44. Will you also check that up?

Mr. WIGGIN. I will do my best.

Mr. PECORA. Mr. Chairman, it might be just as well to recess at this time.

The CHAIRMAN. The subcommittee will now take a recess until 2 o'clock.

(Whereupon, at 12:40 p.m., Tuesday, Oct. 17, 1933, the committee recessed until 2 p.m., the same day.)

#### AFTERNOON SESSION

Upon the expiration of the noon recess the hearing was resumed at 2 p.m.

The CHAIRMAN. The committee will come to order. Mr. Wiggin will resume the stand.

#### TESTIMONY OF ALBERT H. WIGGIN, NEW YORK CITY, RETIRED— Resumed

Mr. PECORA. Mr. Wiggin, at the time recess was taken today it was understood that during the recess period your associates would attempt to check up on certain figures that were referred to for the purpose of the record shortly prior to recess. Have you done so, Mr. Wiggin?

MR. CONBOY. May I speak on that question? We have had that pencil sheet checked against the typewritten sheet that was furnished to us. The pencil sheet contains the figures on the sheet at the time it was initialed by Mr. Aiken, but some changes were made by your accountants after the sheet had been initialed by Mr. Aiken, consisting of certain figures at the bottom of the sheet which were not there at the time that Mr. Aiken checked this.

MR. PECORA. Yes.

MR. CONBOY. I think that the circumstances are known to your accountants.

MR. PECORA. Yes.

MR. CONBOY. And that made it a little difficult to check immediately at the time that you inquired, but it has been done since then. Now there was something else that we were asked for.

MR. PECORA. Does the check-up made confirm the figures in the typewritten transcript of that pencil sheet?

MR. CONBOY. I understand from Mr. Aiken that the figures check. That is right, is it not, Mr. Aiken?

MR. AIKEN. Yes.

MR. CONBOY. The figures check.

MR. PECORA. They do? All right.

MR. CONBOY. Now, before you go on with that, you asked this morning for a list of companies that Mr. Wiggin was director in.

MR. PECORA. Yes. If Mr. Wiggin is prepared to furnish them he can read those into the record now.

MR. CONBOY. Yes. On the 15th—

MR. PECORA (interposing). Let Mr. Wiggin read it, because he is the witness.

MR. CONBOY. Of course he will read it, but the list was prepared by his secretary during his absence in response to a request that came from the Committee on Interstate and Foreign Commerce of the House, and I thought I might mention that fact here.

MR. PECORA. All right.

MR. CONBOY. On the 15th of May of this year the Committee on Interstate and Foreign Commerce of the House of Representatives sent a list of companies to Mr. Wiggin with which he was reported to be officially connected on December 31, 1931, and that communication was received during his absence. He was then abroad.

His secretary found that the list that came with the letter from the House of Representatives was not complete and attached a rider to the questionnaire which was sent which contained a list of all the companies, and here is the list.

Now for the information of this committee, the initials that are opposite each of the companies are the initials used by the Committee on Interstate and Foreign Commerce in identifying the character of the corporations referred to in their lists. For instance, "Inv." means "investment"; "Ind.", "industrial"; "Ins.", "insurance"; "Bkg.", "banking"; "P.U.O.", "public utilities operating"; "Hold.", "holding"; "R.R.", "railroad."

MR. PECORA. Well, Mr. Wiggin, will you look at the list that Mr. Conboy has just referred to, and after doing so will you tell this committee whether or not that is a complete and correct list of the various corporations and associations with which you were identified



in May this year. Does it purport to be as of May this year, Mr. Conboy?

Mr. CONBOY. The letter says "all dates" in the rider means December 31, 1931, December 31, 1932, and April 30, 1933, and where the connection ceased prior to April 30, 1933, the letter having been written on May 26, the date up to which he was a director is indicated by the appropriate date.

(Mr. Wiggins and associates conferred at length.)

Mr. WIGGIN. What is the question?

(The shorthand reporter read the pending questions of Mr. Pecora.)

Mr. WIGGIN. Mr. Pecora, this is a list made up for these dates, and where there has been any change it is so marked, so that you can easily tell from this any of these companies that I was not a director in April 1933.

Mr. PECORA. Is that list a complete and correct list?

Mr. WIGGIN. As far as I know I think it is.

Mr. PECORA. Yes. I offer it in evidence.

The CHAIRMAN. Do the dates indicate when you ceased to be connected or when you began?

Mr. WIGGIN. No; it shows that I was a director on such and such a date unless it is explained that I dropped out between the two dates.

Mr. CONBOY. Answering your question directly, Mr. Chairman, it does not indicate the exact date of the resignation. It simply indicates so far as these three dates are concerned whether he was a director on those three dates. It is the last date nearest to the time of his resignation. For instance, if, after December 31, 1932, but before April 30, 1933, he resigned, it would only be shown as of December 31, 1932, that he was a director. It is not complete in that respect, and we will furnish you with any information that you desire in that connection. This was the most available list that we had at the moment.

The CHAIRMAN. Let it be admitted and entered on the record.

(List of corporations submitted was thereupon designated "Committee Exhibit No. 4, Oct. 17, 1933", and appears in the record on page 2353.)

Mr. PECORA. I will ask, Mr. Chairman, that the so-called "pencil sheet" bearing signature in the lower right-hand corner of Mr. Aiken after date October 14, 1933, which was the subject of examination during the forenoon hearing, be marked for identification rather than put in evidence.

The CHAIRMAN. That may be done.

(Pencil sheet was thereupon designated "Committee Exhibit No. 5 for identification, October 17, 1933.")

Mr. PECORA. Now, Mr. Wiggins, I show you a typewritten transcript purporting to be the tabulation or recapitulation of the capital, surplus, undivided profits, reserves for losses, et cetera, and dividends paid period from January 1, 1929, to July 31, 1933, of the Chase National Bank, which has been made up largely from the exhibit just marked for identification. It is a copy of the typewritten sheet that was submitted for confirmation to Mr. Aiken during the recess period today.



Will you look at it and tell us if you are now prepared to say, on the basis of any advices furnished you by Mr. Aiken or anyone else, whether or not that is a correct capitulation or statement?

Mr. WIGGIN (after conferring with associates). Mr. Aiken has examined this for me, and he considers it substantially correct. The only point he makes is one, so that there will be no possible misunderstanding. You include capital.

Mr. PECORA. Yes.

Mr. WIGGIN. And then you make an explanation, "Includes amounts allocated to surplus and profits." That is, the whole thing is treated as a capital account.

Mr. PECORA. Yes.

Mr. WIGGIN. Then over here in the right in "Reserves provided" you say "from capital", and if you use "capital" there I assume you are using the same kind of capital that you used in the other.

Mr. PECORA. That portion of the capital that was made up of surplus and undivided profits.

Mr. WIGGIN. Not that portion of it, but the capital that includes surplus and profits.

Mr. PECORA. Yes.

Mr. WIGGIN. Now I would like to have that go in so that it will not be misleading.

Mr. PECORA. You can write it in on that typewritten transcript if you wish, Mr. Wiggin, in order that it may appear.

Mr. CONBOY. Mr. Aiken will take care of that.

Mr. PECORA. Will you do that now so that I can offer it in evidence?

Mr. CONBOY. Yes.

Mr. WIGGIN. You see the point. When you say "capital" you want to mean the same things every time. It is capital funds including—

Mr. PECORA. Capital funds, which includes surplus and undivided profits.

Mr. AIKEN. Mr. Pecora, will it be satisfactory if I put "from surplus funds", which is the actual fact?

Mr. PECORA. All right.

(Thereupon Mr. Aiken wrote upon the typewritten sheet.)

Senator ADAMS. Those reserves went into the surplus first and then were set across into the reserves?

Mr. AIKEN. No; they went into a reserve for contingencies first, and then from the reserve for contingencies they went into reserve for—

Senator ADAMS (interposing). They went into undivided profits first?

Mr. AIKEN. No; they went into reserve for contingencies first. You are talking now of the reserves which we have set up?

Senator ADAMS. Yes.

Mr. AIKEN. It first went into reserve for contingencies and then into a reserve for various and sundry slow loans, slow securities.

Mr. PECORA. I now offer that typewritten transcript in evidence and ask that it be spread on the record.

The CHAIRMAN. Let it be admitted and entered on the record.

(Typewritten recapitulation was thereupon designated "Committee Exhibit No. 6, October 17, 1933", and appears in full on page 2355.)

Mr. PECORA. Now, referring, Mr. Wiggin, to the list of your directorates which has been marked in evidence as "Committee Exhibit 4 of this date", let me ask you, have you received any salary or other compensation other than fees paid to directors for attending meetings of the board, from any of the corporations shown on that list?

Mr. WIGGIN. Do you want me to name any date or at any time?

Mr. PECORA. At any time.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. From which companies on that list did you receive any salary or other form of compensation other than fees usually paid to directors for attending board meetings?

Mr. WIGGIN. I think the following: The locomotive company, the sugar company.

Senator COUZENS. Will you please give the full name of the company?

Mr. WIGGIN. American Locomotive Co., American Sugar Co.

Senator ADAMS. That is just the American Sugar Co.?

Mr. WIGGIN. I beg your pardon. The American Sugar Refining Co.

Mr. PECORA. Mr. Wiggin, as you go along enumerating the names of those corporations will you also indicate the amount of the salary or compensation that you so received from each of them?

Mr. WIGGIN. I think the Locomotive salary was \$300 a month. I may not have these right—

Mr. PECORA. Just to the best of your recollection.

Mr. WIGGIN. I think the sugar company was the same. Armour & Co., no salary now; formerly \$1,000 a month; before that, nothing, and before that, \$3,300 a month; but that was a long time ago.

Mr. PECORA. \$40,000 a year?

Mr. WIGGIN. Yes. American Express Co. paid salaries at one time, but we stopped that some time ago, to the members of the executive committee. When we went in there that was the custom, and we stopped it a little later.

Mr. PECORA. How much?

Mr. WIGGIN. I think it was \$3,000.

Mr. PECORA. A year?

Mr. WIGGIN. A year. Brooklyn-Manhattan. A salary was formerly received.

Mr. PECORA. That is, the Brooklyn-Manhattan Rapid Transit Corporation?

Mr. WIGGIN. Yes; but that has ceased over a year ago.

Mr. PECORA. What was it at that time?

Mr. WIGGIN. \$20,000 a year.

The Chase National Bank you know the story of.

International Paper Co. paid a small salary; I think it may have been \$2,000; I am not sure.

Senator TOWNSEND. Was that about the salary paid to all directors, along that line?

Mr. WIGGIN. All directors or members of special committees, Senator, executive committees and financial committees.

Senator TOWNSEND. Then your salary was in keeping with all the other directors?

Mr. WIGGIN. Entirely so.

Stone & Webster formerly paid a salary; I should say it was \$1,500, but I am not sure.

Underwood-Elliot-Fisher paid its finance committee a small salary. I am not sure what the amount was. They have all been changed, reduced. I should say that was about \$2,000.

Western Union Telegraph Co. As chairman of the executive committee I receive a salary that amounts to \$3,000-odd.

Senator COUZENS. Per year?

Mr. WIGGIN. Yes, sir. The Finance Co. of Great Britain and America formerly paid all of its American directors a salary, but they have not done so for some 3 years, and I have forgotten the amount; but I think it was about \$5,000.

Mr. PECORA. A year?

Mr. WIGGIN. Yes; I think that covers it.

The CHAIRMAN. Were those salaries included in the \$202,000 that you mentioned a while ago?

Mr. WIGGIN. No, sir; nothing to do with that.

The CHAIRMAN. They were outside of that?

Mr. WIGGIN. Entirely outside.

Mr. PECORA. The salary of \$202,000 that you mentioned this morning—was that a salary as an officer of the Chase National Bank?

Mr. WIGGIN. That is right, sir.

Mr. PECORA. When you received a salary from the Chase National Bank were you also receiving a salary from the Chase Securities Corporation?

Mr. WIGGIN. No, sir.

Mr. PECORA. When you received a salary at the rate of \$40,000 a year from the Armour Co., what connection or position did you have with the Armour Co.?

Mr. WIGGIN. A member of the finance committee and of the board of directors.

Mr. PECORA. When you were receiving a salary of \$20,000 a year from the Brooklyn-Manhattan Rapid Transit Co., what was your corporate position there?

Mr. WIGGIN. Chairman of the finance committee.

Mr. PECORA. During any of the time that you served as an executive officer of the Chase Securities Corporation did you receive any bonus or compensation in any form that was styled other than salary?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What was the highest amount you received of any such kind of compensation in any one year from the Chase Securities Corporation?

Mr. WIGGIN. I will ascertain. [After consulting associates:] \$75,000.

Mr. PECORA. In what year was that?

Mr. WIGGIN. Received in 1930.



Mr. PECORA. In addition to the salary you received as such from the Chase National Bank as its chief executive officer, did you also receive in various years a bonus?

Mr. WIGGIN. From the bank?

Mr. PECORA. Yes.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What was the largest amount of bonus that you received, in addition to your salary, in any one year from the bank?

Mr. WIGGIN. I will ascertain that. I will have it in just a second for you. [After consulting associates:] I think I can answer that question now, sir.

Mr. PECORA. All right.

Mr. WIGGIN. The largest amount received was \$100,000.

Mr. PECORA. In what year did you receive that?

Mr. WIGGIN. I received it in the year 1929 for the 1928 services, and received it in 1930 for the year 1929.

Mr. PECORA. What did you receive in 1931 for the year 1930 by way of a bonus from the bank?

Mr. WIGGIN. \$75,000.

Mr. PECORA. Will you tell the committee, please, out of what fund those bonuses were paid by the bank? Was there, in other words, a so-called "management fund" or anything comparable to it that was established from year to year out of which these bonuses were paid?

Mr. WIGGIN. No, sir; there was no special fund.

Senator ADAMS. Upon what theory were those bonuses paid?

Mr. WIGGIN. Additional compensation in profitable times, on the theory that the salaries of the officers, which were distributed all through the entire staff, you know——

Senator ADAMS. They credited you with being responsible for some of their added profits in the good years.

Mr. WIGGIN. I think so, sir.

Senator ADAMS. In the bad years did they charge you in any way with responsibility for losses?

Mr. WIGGIN. No, sir.

Senator ADAMS. It has only worked one way?

Mr. WIGGIN. Only one way.

Senator COUZENS. In reporting those to the Bureau of Internal Revenue, did you report them as earned income?

Mr. WIGGIN. Yes, sir.

Senator COUZENS. How much of a deduction from income did you get as a result of reporting them as earned income; do you know?

Mr. WIGGIN. None that I know of.

Senator COUZENS. During different laws enacted by Congress there were different amounts, a lower rate for earned income than there was for investment income.

Mr. WIGGIN (after conferring with associates). Senator, I am advised that the maximum amount was \$30,000; but everything else was——

Senator COUZENS. That was over one period. There were varying amounts. I do not now recall them all by years, but they were set at different amounts. But your salary was all in excess of those amounts?

Mr. WIGGIN. Yes, sir.



Senator ADAMS. Those various companies that you served on boards and finance committees of—I gather from your answer to the question of Senator Couzens that those salaries, monthly and yearly, were largely cut off?

Mr. WIGGIN. I would not say “largely.” I have given up a great many things in the last few months; but the biggest ones certainly are.

Senator ADAMS. You are still serving on most of those boards?

Mr. WIGGIN. Not on all. Some of them I am still on.

Senator ADAMS. There has been not an elimination of the compensation, but just a reduction?

Mr. WIGGIN. Not an elimination; no. I am still on some boards that pay salaries. I have resigned from some that paid salaries.

Mr. PECORA. You have heretofore stated that your salary for the year 1932, as chairman of the governing board of the Chase Bank, was \$202,000. Are you sure of that amount?

Mr. WIGGIN. I think so; but wait until I ask—

Mr. PECORA. The reason I ask that is that our research of the records of the bank seems to indicate that it was \$220,300, and not \$202,000.

Mr. WIGGIN. Well, I cannot remember the exact dates, but what happened was that we reduced the salaries 10 percent, which would have made it \$225,000, and I voluntarily gave up another 10 percent, which would take off \$22,500. Just what date that was, the total for the year, I would have to look up, but at the close of the year it was \$202,500.

Senator ADAMS. You took two 10's off of yours?

Mr. WIGGIN. One 10 was taken off from everybody, and I took off the other in addition.

Senator ADAMS. That was after the first 10 was taken off?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Your salary for the year 1931 was \$250,000, as head of the bank, was it not?

Mr. WIGGIN. Yes. Whether it ran that whole year or not, I do not know.

Mr. PECORA. Was it a policy of the bank in those years to require its officers and its employees to devote all of their time to the service and interest of the bank? Was there such an agreement entered into by the bank with all of its officers and employees?

Mr. WIGGIN. Not that I know of.

Mr. PECORA. Did you ever hear of any such agreement?

Mr. WIGGIN. No, sir.

Mr. PECORA. I want to show you a typewritten statement entitled “The Chase National Bank of the City of New York”, which was furnished to us by authorities of that bank in response to a request which we addressed to them for a statement of the salaries and other forms of compensation paid by the bank to its different officers for the years 1929 up to and including June 30, 1933. Will you please look at that and tell us if you can identify it as a true and correct statement of such salaries and compensation?

Mr. WIGGIN. Well, I cannot speak for anything since January in that respect. I have been out of the bank since then.

Mr. PECORA. You notice the stamp appearing in numerous cases on the face of that typewritten statement, indicating the source from which it came to us?

Mr. WIGGIN. From the files of the bank?

Mr. PECORA. Yes. Have you any reason to believe that it is not correct?

Mr. WIGGIN. Not the slightest.

Mr. PECORA. According to that statement, Mr. Wiggin, what was your salary for the year 1929, from the bank?

Mr. WIGGIN. \$175,000.

Mr. PECORA. And what additional compensation did you receive from the bank for that year, other than your salary?

Mr. WIGGIN. \$100,000.

Mr. PECORA. That is the so-called "bonus"?

Mr. WIGGIN. Additional compensation, we call it.

Mr. PECORA. And it sometimes has been called "adjusted compensation"?

Senator COUZENS. That only applies to veterans.

Mr. PECORA. According to that typewritten statement, what was the salary you received as an officer of the bank for the year 1930?

Mr. WIGGIN. \$218,750.

Mr. PECORA. And what additional compensation, if any, did you receive for that year, according to that statement?

Mr. WIGGIN. \$75,000.

Mr. PECORA. Still, according to that statement, what was your salary as an officer of the bank for the year 1931?

Mr. WIGGIN. \$250,000.

Mr. PECORA. How much, if anything, did you receive by way of additional compensation for that year?

Mr. WIGGIN. None.

Mr. PECORA. For the year 1932, according to that statement, what salary did you receive?

Mr. WIGGIN. \$220,300.

Mr. PECORA. What additional compensations, if any, did you receive that year?

Mr. WIGGIN. None.

Mr. PECORA. And, according to that statement, what is the sum you have received as salary for the first 6 months of the present year?

Mr. WIGGIN. \$52,970.

Mr. PECORA. And no additional compensation?

Mr. WIGGIN. No, sir.

Mr. PECORA. Have you any reason to doubt the accuracy of any of those figures, Mr. Wiggin?

Mr. WIGGIN. No, sir.

Mr. PECORA. Mr. Wiggin, the typewritten statement purporting to be tabulation of the salaries and additional compensation paid to various officers of the bank, including yourself, for the year 1928 down to and including the first half of this year, which you have already seen, will you kindly look at it and tell us if you would say that that is a true and correct statement of the salaries and additional compensation paid not only to yourself but to the senior officers and directors or officials of the bank for that same period of time?

Mr. WIGGIN. I think so. I see no reason to question it.

Mr. PECORA. It was obtained from the file department of the bank.

Mr. WIGGIN. I have no question about it.

Mr. PECORA. You have no reason to doubt the accuracy of it?

Mr. WIGGIN. No.

Mr. PECORA. I offer it in evidence and ask that it be spread upon the record.

The CHAIRMAN. Let it be admitted and placed in the record.

(Tabulation of salaries and additional compensation paid to various officers of the Chase National Bank of the city of New York from and including the year 1928 to June 30, 1933, was received in evidence, marked "Committee Exhibit 7 of October 17, 1933", and is printed in the record in full on page 2356.)

Mr. PECORA. Mr. Wiggin, I want to show you a printed form that has just been furnished to me by a Mr. Tuttle, who I understand is associated with Mr. Bisbee's law firm, and which purports to be an application for employment required to be filled out by employees of the Chase National Bank. Will you please look at it and tell us if you recognize it as a true and correct copy of such an application form which the bank required employees to fill out?

Mr. WIGGIN. I never saw it before, but I have no question but what it is the form.

Mr. PECORA. Were officers of the bank also required to sign such an application form?

Mr. WIGGIN. I do not think so, but I do not know. I know I never did.

Mr. PECORA. Can you get advices from any of the personnel of the bank who are gathered about you about that?

Mr. WIGGIN (after consulting with some of his associates). Officers were not required to.

Mr. PECORA. Officers were not required so to sign?

Mr. WIGGIN. No.

Mr. PECORA. Let me read the following statement appearing at the end of this printed application form.

Senator COUZENS. Has that printed application form any form number?

Mr. PECORA. I see a printed number on the last sheet, at the lower left-hand corner, Senator, reading as follows: "Pers. 23 4-31."

Let me read the following statement at the end of this application form:

I hereby affirm that my answers to the foregoing questions are true and correct, and I have accounted for all of my employed and unemployed time, and that I have not knowingly withheld any facts or circumstances which would, if disclosed, affect my application unfavorably. In the event of my appointment to a position in the Chase National Bank of the city of New York I will comply cheerfully with all of its orders, rules, and regulations. While in the employ of the bank I agree not to engage in any other business without the written consent of the bank. I agree to give the bank 2 weeks' prior notice of resignation, but it is understood that my employment is for no stated term and is subject to termination at the will of the bank.

You say that officers were not required to subscribe to any such affirmation or statement?

Mr. WIGGIN. I so understand.



Mr. PECORA. It was considered a sound business policy by the officers of the bank to require employees or those holding subordinate positions to obligate themselves while in the employ of the bank not to engage in any other business without the written consent of the bank, was it?

Mr. WIGGIN. Give me that again, Mr. Pecora.

Mr. PECORA. Let the reporter read it.

(Thereupon the last question was read by the reporter as above recorded.)

Mr. WIGGIN. I think so.

Mr. PECORA. Why was not that condition also imposed upon officers if, as a matter of fact, it was not required of officers?

Mr. WIGGIN. I think the theory was and is that associations with other enterprises were of benefit to the bank.

Mr. PECORA. Do you think it was a benefit to the bank, for instance, during the years that you were its executive head and receiving, by way of salary and additional compensation, sums exceeding in 1 year over \$300,000, for you to be connected with other corporations which paid you salaries as high as \$40,000?

Mr. WIGGIN. I am sure of it.

Mr. PECORA. I presume, of course, that you rendered service to the Armour Co. for the \$40,000 annual salary that you received during the time that you received it?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And did those services improve your value to the bank as its executive head?

Mr. WIGGIN. I think so.

Mr. PECORA. In what way?

Mr. WIGGIN. The business between the two was greatly increased.

Mr. PECORA. Is that true also of the affiliation you had with the Brooklyn Manhattan Transit Co. during the time that you received a salary from that company of \$20,000 a year?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. When you were serving the Chase National Bank and received from it the salary and additional compensation shown here to have been received by you, you were, of course, attempting to devote yourself to the best interests of the bank, were you not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And when, during any of those times, you were also functioning as an officer, say, of the Armour Co., from which company you received a salary at the rate of \$40,000 a year, you were attempting to render those services for the best interests of the Armour Co.?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Presumably those services were of an extensive character in view of the amount of salary you received from them?

Mr. WIGGIN. I think so.

Mr. PECORA. Did they not in any way militate against the time and service that you were rendering to the Chase National Bank during that time?

Mr. WIGGIN. I do not think so.

Senator ADAMS. May I ask a question? Were Armour & Co. large depositors with the Chase Bank?



Mr. WIGGIN. They became so after I became associated with them.

Senator ADAMS. Were they also large borrowers?

Mr. WIGGIN. No; not to amount to anything. Not after the reorganization. Not after I went in. They did borrow money. We were only too glad to lend it.

Mr. PECORA. Do you know Mr. Dahl, D-a-h-l of the Brooklyn-Manhattan Transit Co.?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. In what capacity was he connected with that company during the time that you received a salary of \$20,000 a year from that company?

Mr. WIGGIN. Chairman of the board of directors.

Mr. PECORA. During that time, Mr. Wiggins, did the Chase Bank make large loans to Mr. Dahl?

Mr. WIGGIN. We have loaned to Mr. Dahl for a long time; yes, sir.

Mr. PECORA. And the aggregate amount of loans at one time ran into several millions of dollars?

Mr. WIGGIN. Yes, sir. I will get that figure if you want.

Mr. PECORA. Will you please.

Mr. WIGGIN. Have you got it there, Mr. Pecora?

Mr. PECORA. We have a figure as high as \$4,758,000 at one time.

Mr. WIGGIN. That we understand is correct.

Mr. PECORA. Yes. In addition, did the Chase Bank make large loans to other persons upon the endorsement of Mr. Dahl?

Mr. WIGGIN. I know of one. I do not know how many there were.

Mr. PECORA. Have you any way of finding out readily now how many others there were of such loans?

Mr. WIGGIN. I know of but one other, Mr. Pecora.

Mr. PECORA. What was the amount of that one?

Mr. WIGGIN. I will have to look it up. We have not got it here.

Mr. PECORA. Will you please.

The CHAIRMAN. How was this loan to Mr. Dahl secured, Mr. Wiggins?

Mr. WIGGIN. It was secured by stocks. I will have to look it up to see just what the collateral was, but in the main these loans were secured by the Brooklyn Manhattan Transit Co. preferred and common stocks. There may have been other collaterals, too. But that was the essential part of the collateral.

Senator COUZENS. Was the security adequate?

Mr. WIGGIN. At the time the loan was made it was ample.

Senator COUZENS. It was ample?

Mr. WIGGIN. Yes.

Senator COUZENS. Has there been any loss on it?

Mr. WIGGIN. Yes, sir.

Senator COUZENS. How much?

Mr. WIGGIN. I will have to look that up.

The CHAIRMAN. You might state what the Brooklyn Manhattan Transit stock was worth at the time, and what it is worth now.

Mr. WIGGIN. Yes; we will get that for you. It may take a little time.

Senator ADAMS. Well, the circumstances rather demonstrated that the judgment that the security was ample was not entirely correct.

Mr. WIGGIN. Yes; of course you remember that the market faded away so rapidly that you could not sell things out.

Senator ADAMS. I was just questioning as to what ample security it really was.

Mr. WIGGIN. Oh, it was a big percentage of margin at the time.

Mr. PECORA. Mr. Wiggin, from the records of the bank which have been examined by us I understand that on June 15, 1932, the loan account of Mr. Dahl at the bank showed a debit balance of \$3,183,358.19, and that the collateral which the bank held against that loan or those loans was appraised as of that date as being worth \$615,000. Does that conform to your present recollection of the fact?

Mr. WIGGIN. I think that is probably correct, sir.

Mr. PECORA. So that, to use the vernacular in banking circles, on June 15, 1932, that loan account was "under water" to the extent of \$2,500,000?

Mr. WIGGIN. Yes, sir.

Senator COUZENS. What was Mr. Dahl borrowing this money for? To buy B.M.T. stock?

Mr. WIGGIN. I think so. Speculation. Investments that turn out wrong are speculations.

Mr. PECORA. Mr. Wiggin, are you identified with a corporation called the "Shermar Corporation"?

Mr. WIGGIN. I am a stockholder. It is a corporation that is owned by my family.

Mr. PECORA. Did you cause it to be incorporated?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. When?

Mr. WIGGIN. I will have to find out. [After consulting with his associates.] 1916.

Senator COUZENS. Did you turn into that corporation the dividends, salaries, and bonuses you got from your service?

Mr. WIGGIN. No, sir.

Senator COUZENS. What was the purpose of the corporation?

Mr. WIGGIN. There were several purposes. In the first place it helped a great deal in detail. I did not have to mix up in book-keeping or check signing or running it. I wanted my family to familiarize themselves with investments and the finance business. I also had an idea that perhaps does not work out, knowing that I would make a great many mistakes in life in investments, that they would not be exposed to the public. I thought they were gone forever and would not show up in my estate. I hoped it would help on taxes.

Senator COUZENS. Did it help on taxes?

Mr. WIGGIN. I think so, but it is very difficult to figure. In the first place, they had a great many investments in bonds and notes, and, of course, the company had to pay the income tax on those, and the company was liberal in its distribution of earnings, so that the individuals had to pay on those dividends. There was a doubling up there.

Senator COUZENS. The limit the corporation paid was 12½ percent.

Mr. WIGGIN. 12½ percent. The inheritance tax was an important consideration, too.

Senator COUZENS. In that case there would be no tax unless it kept the transfer of the stock in the corporation to another owner.

The CHAIRMAN. What was the capital of that corporation?

Mr. WIGGIN. The capital changed, Mr. Chairman, from time to time, so I do not know what date you have in mind. The present capitalization of the company is \$4,000,000 in preferred stock.

The CHAIRMAN. \$4,000,000?

Mr. WIGGIN. Yes, sir; and a smaller number of shares of no par value common stock. The common stock is 2,000 shares at \$5 par value.

The CHAIRMAN. I had in mind what the capital was when it was organized.

Mr. WIGGIN. \$10,000 in 1916.

The CHAIRMAN. Paid in or authorized?

Mr. WIGGIN. Paid in; it was increased to \$2,510,000 in 1918.

Mr. PECORA. Is the name of this company, "Shermar" derived from any combination of syllables of names of persons known to you?

Mr. WIGGIN. A combination of family names; yes, sir.

Mr. PECORA. How was it made up?

Mr. WIGGIN. We took the "Sher" from "Sherburne", and the "mar" from his wife's name, Marjorie—"Shermar."

Mr. PECORA. Sherman is the first name of a son-in-law?

Mr. WIGGIN. Sherburne.

Mr. PECORA. And the other syllable of the name "Shermar" is derived from what name?

Mr. WIGGIN. Marjorie.

Mr. PECORA. That is your daughter, who is the wife of Mr. Sherburne Prescott.

Mr. WIGGIN. Yes.

Mr. PECORA. All the stock of that company is virtually held by you or the immediate members of your family?

Mr. WIGGIN. Some of it was held by the trusts, family trusts, and all the rest of it was held by the family individually.

Mr. PECORA. It was virtually a family institution?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Are there any other corporations that you caused to be organized in that same fashion for those purposes?

Mr. WIGGIN. There were others; yes.

Mr. PECORA. What are their names?

Mr. WIGGIN. The Murlyn Corporation; the Clingston Corporation—

Mr. PECORA. The Medfield Co.?

Mr. WIGGIN. Yes. I will give you those in just a minute. I am trying to get a complete list of them. There was the Clingston Corporation; there was the Medfield Corporation; there was the Greenwich Corporation; and the Selcott Corporation.

Mr. PECORA. Mr. Wiggins, in order to make the record complete and bring it down practically to date, referring again to the loan account of Mr. Dahl, our research into the records of the bank showed that on October 1 of this year the debit balance of that loan account was \$3,176,016.69, which was secured substantially by the same collateral as existed on June 15, 1932, less 2,150 shares of the Interborough Rapid Transit Co.; and that that collateral on October 1 of this year was appraised as having a value of \$1,178,400, leaving the loan account still under water, so to speak, by the sum of



\$1,997,616.69. Would that conform to your recollection or knowledge of the facts.

Mr. WIGGIN. I have no question that those figures are correct.

Mr. PECORA. Was the International Power & Paper Co. one of the corporations with which heretofore you have been identified as an officer or director in any capacity?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Did that corporation, while you were the executive head of the bank, obtain large loans from the bank?

Mr. WIGGIN. It has substantial loans now; yes, sir.

Mr. PECORA. Do you know Mr. Graustein, the executive head of that corporation?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Did he individually obtain large loans from the bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Do you know the extent of those loans to Mr. Graustein individually?

Mr. WIGGIN. I will have to look it up.

Mr. PECORA. Will you, please?

Mr. CONBOY. While they are looking that up, would you let the reporter read back to me those figures that were contained in your questions with regard to the Dahl loan in October?

Mr. PECORA. Yes.

(The reporter read as requested.)

Mr. WIGGIN. What was the question?

(The reporter read the pending question.)

Mr. WIGGIN. I have not that in my head. We will look that up and get it for you tomorrow.

Mr. PECORA. You were asked about loans made by the bank to Mr. Graustein personally.

Mr. WIGGIN. Yes. I say I have not got that figure, but I will look that up.

Mr. PECORA. Do you know how much——

Mr. WIGGIN. There was a substantial loan.

Mr. PECORA. Do you know how much was charged off during the year 1930 by the Chase bank on account of loans to Mr. Graustein individually?

Mr. WIGGIN. I will have to look it up. I do not know. As a matter of fact——

Mr. PECORA. Our figures show that \$2,000,000 was charged off during the year 1930 against loans made to Mr. Graustein individually.

Mr. WIGGIN. I do not——

Mr. PECORA. Can you confirm that and check it up?

Mr. WIGGIN. I will have to check it up, but I do not question it. I only call your attention to the fact that there is a big come-back there. Mr. Graustein has furnished us life insurance, so that if he dies it is good and if he lives it is bound to be good.

Mr. PECORA. Do you know how much of a chargeoff was made during the year 1931 of loans made to Mr. Graustein individually?

Mr. WIGGIN. I will have to look it up.

Mr. PECORA. The figure we have for that year is \$1,339,000.

Mr. WIGGIN. I do not question it, sir.



Mr. PECORA. That would make an aggregate of chargeoffs for those two years aggregating \$3,339,000 on account of those loans to Mr. Graustein individually, assuming our research is correct.

Mr. WIGGIN. Yes. Of course, there are reserves set up for those markdowns, and the fact that it is marked off does not mean that it does not come back.

Mr. PECORA. Over what period of time were those loans made to Mr. Graustein individually?

Mr. WIGGIN. I will have to look it up. I cannot recall.

Mr. PECORA. There were other transactions between either the bank or the Chase Securities Corporation and the International Power & Paper Co., were there not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And those transactions, in part, consist of the Chase Securities Corporation bringing out issues of securities that were made by the International Co.?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I am going to go into those in detail later.

The CHAIRMAN. Mr. Graustein was president of that paper and power company, and you were one of the directors.

Mr. WIGGIN. Correct.

Mr. PECORA. Did you ever have any personal stock transactions, either in your own name or in the name of the Shermar Corporation, or one of the other personal companies that you have referred to, with Mr. Dahl?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What were they, in the nature of joint-account or pool operations?

Mr. WIGGIN. No. I do not think there was any joint-account or pool operation.

Mr. PECORA. Were they syndicate accounts?

Mr. WIGGIN. I do not think so.

Mr. PECORA. How would you style them?

Mr. WIGGIN. Give me a minute here. I think it is the Shermar Corporation—one of the corporations had a loan to Mr. Dahl for a long time. We have had several loans. They varied in amounts at different dates. I can look it up and give you just the total amount now due or that was due any date you want.

Mr. PECORA. Were any moneys advanced by the Chase bank in connection with any of those stock activities or operations from time to time?

Mr. WIGGIN. You mean stock activities of the Shermar's relation to Mr. Dahl? None at all.

Mr. PECORA. Yes; or any stock activities of Mr. Dahl in combination with you or with others.

Mr. WIGGIN. I do not think so; not to my knowledge.

Mr. PECORA. Now, getting back to the American Express Banking & Trust Co., that trust company started business with an initial capital of \$10,000,000, did it not?

Mr. WIGGIN. I think that is right, sir.

Mr. PECORA. And a paid-in surplus of \$5,000,000.

Mr. WIGGIN. I think so.

Mr. PECORA. How much of the stock of that bank was subscribed for the Chase Securities Corporation or, rather, by the American Express Co.?

Mr. WIGGIN. I will have to get that. We have it all here, I think (after consulting an associate). Approximately 54 percent, or 54,000 shares.

Mr. PECORA. And at that time was the American Express Co. a subsidiary of the Chase Securities Corporation?

Mr. WIGGIN. It is owned by the Chase; yes.

Mr. PECORA. Is it wholly owned by it, or was it?

Mr. WIGGIN. 98 percent.

Mr. PECORA. How much of the capital stock of the American Express Bank & Trust Co. at the outside was subscribed for by the stockholders of the American Express Co.?

Mr. CONBOY. Mr. Pecora, didn't you have that this morning? There was at first 54 percent, 36 percent, and 10 percent.

Mr. PECORA. But I wanted to address the witness's attention to the 36 percent.

Mr. CONBOY. I think there was some memorandum that you read from at the time you were inquiring about it that contained the correct figures.

Mr. PECORA. Yes.

Mr. CONBOY. The information was furnished to you in a letter under date of September 27, 1933, and you had it before you at the time of your examination this morning.

Mr. PECORA. I have it here now. Now, Mr. Wiggin, at the time of the organization of the American Express Bank & Trust Co., according to the letter of September 27, 1913—

Mr. CONBOY (interposing). You mean September 27, 1933, don't you?

Mr. PECORA. Yes, according to the letter of September 27, 1933, from which I read this morning, 10 percent of the shares were allotted for subscription, to the directors and officers of the new bank and trust company. Are you familiar with the circumstances of that, Mr. Wiggin?

Mr. WIGGIN. I may have to refresh my memory on some things. If you will tell me what is in your mind I will either know or will look it up.

Mr. PECORA. Can you refresh your recollection by reference to any records available to you, or by conference with any of your associates, to the extent that you may be able to tell us whether in allotting 10 percent of those shares for subscription by officers and directors of the new bank, as this letter describes here, the resolution of the board of the American Express Bank & Trust Co. specifically allocated or allotted 6,700 shares at \$170 a share to—

Persons considered to be in a position to promote the best interests of said bank and trust company the number of shares to be utilized for this purpose and the persons to be permitted to acquire them to be determined by a committee of three directors authorized to act in the premises.

Mr. WIGGIN. I recall that, yes, sir.

Mr. CONBOY. Mr. Pecora, would you permit me to make a suggestion?

Mr. PECORA. Yes.

Mr. CONBOY. I think the 6,700 shares you are referring to are in an allotment by the Chase Securities Corporation and not in connection with the management, out of a subscription made by the Chase Securities Corporation.

Mr. PECORA. All right.

Mr. CONBOY. If you will look at the letter sent to you you will see. I think it is the third paragraph in that letter, you will find.

Mr. PECORA. The Chase Securities Corporation as a stockholder of the American Express Co. subscribed for 2,713 shares at \$150 a share and 6,700 shares of this stock was sold to certain individuals at \$170 per share. That is the reference in the letter that you now call to my attention, is it?

Mr. CONBOY. Yes. But that is not a part of the 10 percent allotment to the management.

Mr. PECORA. No. That is a part of the allotment to the Securities Corporation. And the resolution that I have quoted from is a resolution of the board of directors of the Chase Securities Corporation, is that correct?

Mr. CONBOY. Yes.

Mr. PECORA. Now, Mr. Wiggins, were you one of the persons who eventually was considered to be in a position to promote the best interests of the American Express Bank & Trust Co.?

Mr. WIGGIN. I think so.

Mr. PECORA. And, in accordance with that determination, how many shares were allotted to you for subscription at \$170 a share out of this block of 6,700 shares?

Mr. WIGGIN. Two thousand shares.

Mr. PECORA. And among the other persons who were selected as persons considered to be in a position to promote the best interests of the American Express Bank & Trust Co., to whom allotments were made of portions of those 6,700 shares, were there included other of the principal officers as well as directors of the Chase National Bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Whose best interests were those persons supposed to serve?

Mr. WIGGIN. I assume, in taking this allotment, that was given to help the American Express Bank & Trust Co., that that was the theory of it.

Mr. PECORA. Well, weren't the interests of the Chase Securities Corporation also involved, as a large stockholder of the American Express Bank & Trust Co.?

Mr. WIGGIN. Yes. Anything that benefited the American Express Bank & Trust Co. reverted back to the Chase Securities Corporation in very large percentage.

Mr. PECORA. And anything that benefited the Chase Securities Corporation correspondingly benefited the Chase National Bank and its stockholders because of identity of interest among them.

Mr. WIGGIN. It benefited the same shareholders, not the bank but the same shareholders.

Mr. PECORA. And you were an officer; namely, the executive head of the Chase National Bank at that time, weren't you?

Mr. WIGGIN. Yes, sir.



Mr. PECORA. You did not need this as an extra inducement to call forth your services in the best interests of either the bank or the Chase Securities Corporation, did you?

Mr. WIGGIN. Perhaps not.

Mr. PECORA. Or the American Bank & Trust Co., did you?

Mr. WIGGIN. Perhaps not. I might mention that we paid them a profit to get it, and took a loss on it very promptly.

Mr. PECORA. But you did not expect to take them at a loss at the time, did you?

Mr. WIGGIN. No. But we did pay them a profit at the time we took it.

Mr. PECORA. You are not making a virtue of a necessity, are you?

Mr. WIGGIN. In taking a profit?

Mr. PECORA. No; I say when you took a loss.

Mr. WIGGIN. No.

Mr. PECORA. At the time you took those 2,000 shares is what I am referring to.

Mr. WIGGIN. I am speaking of the result.

Mr. PECORA. Now, I notice that the name of Mr. F. H. Ecker is included among those to whom were allotted shares out of this block of 6,700 shares of the American Express Bank & Trust Co.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. That is the same Mr. Ecker who was a member of the board of directors of Chase?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I also notice the name of Mr. Charles Hayden among the list of those persons. That is the gentleman who is a member of the firm of Hayden, Stone & Co., is it not?

Mr. WIGGIN. Yes, sir.

Senator COUZENS. Aren't they some of the gentlemen who were mixed up with the Dillon, Read & Co. investment trusts, Mr. Pecora?

Mr. PECORA. Yes; I believe so.

Senator COUZENS. I thought so.

Mr. PECORA. By the way, Mr. Wiggins, I notice the name of Mr. Clarence Dillon among the list of those persons. That is the Clarence Dillon who is the head of the firm of Dillon, Read & Co., isn't it?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Who was a recent visitor before this subcommittee?

Mr. WIGGIN. Yes, sir.

Senator COUZENS. Was there any competition between the Chase Securities Corporation and Dillon, Read & Co.?

Mr. WIGGIN. Yes, sir.

Senator COUZENS. Mr. Dillon and Mr. Ecker and Mr. Hayden all got in no matter who won, is that it?

Mr. WIGGIN. Well—[and witness laughed].

Mr. PECORA. Mr. Wiggins, what position were these various gentlemen in at that time that put them in this category of persons "considered to be in a position to promote the best interests of the American Express Bank & Trust Co.?"

Mr. WIGGIN. They were active men who would be helpful in business.



Mr. PECORA. In what way was it considered that they would be helpful?

Mr. WIGGIN. In business, in deposits.

The CHAIRMAN. What was the main business of the American Express Bank & Trust Co.?

Mr. WIGGIN. It was a commercial business, and a regular deposit business.

Senator COUZENS. Why was it organized in competition with the Chase National Bank?

Mr. WIGGIN. We felt that the American Express Co., with its many, many connections, not only in this country but abroad, would attract business to a bank with their name on it that would not come to any other bank. That was the theory.

Senator COUZENS. Well, didn't it work out?

Mr. WIGGIN. Well—

The CHAIRMAN (interposing). You say you suffered a loss on those shares. Would you mind naming what the loss was?

Mr. WIGGIN. We bought at \$170 and sold at \$160.

Mr. PECORA. To whom did you sell at \$160?

Mr. WIGGIN. The bank which took in the American Express Bank & Trust Co. And, of course, I mean the Equitable Trust Co. That is the same mistake that I made this morning.

The CHAIRMAN. When?

Mr. WIGGIN. In December of 1931.

Mr. CONBOY. It is in the last paragraph of the letter that you have before you, of September 27, 1933.

Mr. PECORA. Yes. It says in December of 1931.

Senator COUZENS. Was it running behind? Was that the reason why it was absorbed?

Mr. WIGGIN. Well, they were not making anything, practically speaking.

Senator COUZENS. Did they accumulate any substantial deposits?

Mr. WIGGIN. Yes. I will have to look it up to see what they ran. But, you see, conditions changed so that there wasn't any money coming from Europe to a bank in America, such as we had figured on. When we found it was not working out as we had planned we concluded it was a needless expense to have a separate bank and tie up securities in a separate bank, and we merged the whole thing.

Senator COUZENS. Did it have a national charter?

Mr. WIGGIN. It had a State charter.

Senator COUZENS. And the charter was abandoned?

Mr. WIGGIN. I think so. [After consulting an associate.] It is no longer used, and I suppose it is abandoned.

Mr. PECORA. Now, according to the letter of September 27, 1933, addressed to me by Mr. Hargreaves, secretary-treasurer of Chase Securities Corporation, from which I previously read, I find:

In December of 1931 the American Express Bank & Trust Co. was merged with the Equitable Trust Co. of New York. The merger was effected on a cash basis by the payment of \$160 a share for the shares of the American Express Co. by the Equitable Trust Co.

In connection therewith, Mr. Wiggin, would you say that that merger was in the nature of a so-called rescue party?

Mr. WIGGIN. Oh, no.

Mr. CONBOY. May I direct Mr. Wiggin's attention to something he has overlooked in that connection?

Mr. PECORA. Certainly.

(Thereupon Mr. Wiggin and Mr. Conboy conferred.)

Mr. WIGGIN. Is there a question pending now, Mr. Pecora?

Mr. PECORA. Shall I go ahead now, Mr. Conboy?

Mr. CONBOY. Yes.

Mr. PECORA. Mr. Wiggin, the term "rescue party" or "rescue loans" have been heard by you before, haven't they?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And it is a part of the parlance of Wall Street, so to speak, isn't it?

Mr. WIGGIN. I think so.

Mr. PECORA. And from your understanding of those terms, what do they connote?

Mr. WIGGIN. I suppose "rescue party"—and you are just asking me for my opinion of the definition of "rescue party", are you?

Mr. PECORA. Surely.

Mr. WIGGIN. I suppose "rescue party" means to avoid trouble.

Mr. PECORA. And a rescue loan is also to avoid trouble.

Mr. WIGGIN. I suppose so.

Mr. PECORA. And sometimes to avoid loss.

Mr. WIGGIN. On the theory that a little given time may save a loss.

Mr. PECORA. Where a rescue party is organized and put into commission to save trouble, is it designed to save trouble for the rescuing party or the rescued party?

Mr. WIGGIN. Both.

Mr. PECORA. And would you say, similarly, with regard to the matter of so-called "rescue loans"?

Mr. WIGGIN. Well, I think so; yes.

Mr. PECORA. Now, during the period of time that the Chase Bank, to use the term you used this morning, was under your general direction, did it launch any of these so-called "rescue parties"?

Mr. WIGGIN. Oh, I think so.

Mr. PECORA. Many of them?

Mr. WIGGIN. I think so; several. I think quite a number, probably.

Mr. PECORA. Would you undertake to tell this subcommittee simply on the basis of your best recollection, about the total amount in dollars involved of those rescue parties?

Mr. WIGGIN. Oh, I don't think there was any large amount. Of course, it is a pretty hard thing to describe, because what may strike one person as a large amount may not strike another person as large.

Mr. PECORA. Well, would you undertake to tell the subcommittee about the aggregate amount of dollars involved in any rescue parties that were launched or organized or conducted by the Chase National Bank while it operated under your general direction?

Mr. WIGGIN. I have no way of checking up. I have no idea. But I don't think there was any large amount.

The CHAIRMAN. Wasn't the clearing house supposed to serve that sort of function?

Mr. WIGGIN. No; I cannot say that it was.

Mr. PECORA. The clearing house, as I understand it, contends that it has no legal right to engage in rescue parties, Mr. Chairman.

The CHAIRMAN. All right.

Mr. PECORA. Mr. Wiggin, what is the largest rescue party, insofar as its size is determined by the money involved, that the Chase National Bank launched under your direction?

Mr. WIGGIN. I don't know. I would hate to make a guess on a thing like that.

Mr. PECORA. Well, what is among the largest that readily comes to your mind?

Mr. WIGGIN. Do you realize that when I mention the name it would be a bad thing for that concern on the Street?

Mr. PECORA. Well, we are concerned here with the facts; aren't we?

Mr. WIGGIN. But I would hate to do anybody any damage.

Senator COUZENS. Is it a live concern?

Mr. WIGGIN. Yes, sir; Mr. Pecora, I do not understand that I am making the statement that all rescue parties are a loss. You did not understand me to say that, did you?

Mr. PECORA. But some are?

Mr. WIGGIN. Yes, some are. But I do not want to be on record as assenting to the general statement that all rescue loans indicate a loss.

Senator COUZENS. Mr. Chairman, I move that the answer to that question be suspended for an executive session.

The CHAIRMAN. Very well. We will take that matter up later in executive session.

Mr. PECORA. Very well, Mr. Chairman, and I should like to suggest that the witness, between now and the next session of the subcommittee, compile a statement or list and give it to the subcommittee and its counsel, and have it considered in executive session. Is that agreeable, Mr. Chairman?

The CHAIRMAN. That will be all right.

Mr. CONBOY. Would you prefer to have that done after the subcommittee has come to a conclusion with respect to the question itself, or do you want it done before the subcommittee has passed upon that question?

Senator COUZENS. What question are you now referring to?

Mr. CONBOY. The one about which you are talking.

Senator COUZENS. That question is to be answered in executive session, and the other question just propounded by Mr. Pecora will also be answered in executive session.

Mr. CONBOY. Pardon me. I confess that I did not understand; my trend of thought having been interrupted here, about the connection between the answer to Mr. Pecora's question and the executive session.

The CHAIRMAN. We will take the answer when you get your data together.

Mr. CONBOY. All right.

Mr. PECORA. Now, Mr. Wiggin, before the recess today I asked you a number of questions concerning the creation of any fund out of which what you call additional compensation paid in certain years by the Chase National Bank to any of its officers. Will you now tell us how any such fund was established or created?

Mr. WIGGIN. There wasn't any special fund. It depended upon the earnings for the year.



Mr. PECORA. Who made the determination of the amount of such additional compensation paid in certain of those years according to the typewritten tabulation which is in evidence here, to different senior officers of the bank?

Mr. WIGGIN. The total amount was determined by the board or the executive committee.

Mr. PECORA. Yes.

Mr. WIGGIN. I think the larger portion of the amount voted, of course, went to the clerks, and that was a fixed percentage, running from 5 to 10, according to time of service.

Mr. PECORA. Five to ten percent of what?

Mr. WIGGIN. Of their salaries, according to their terms of service. And the contribution as between the junior officers and the senior officers I think was usually left to me.

Mr. PECORA. And to whom was referred the question of the amount to be given to you in the form of additional compensation?

Mr. WIGGIN. I think I made up that list with my name on it and the board always approved it. I always discussed what I should have with the board.

Mr. PECORA. So that you first suggested the amount to the board and the board as a rule adopted your suggestion?

Mr. WIGGIN. Well, what always happened was that my associates used to suggest the amount and I would cut it down.

Senator COUZENS. That was somewhat different than was done by Mr. Mitchell of the National City, or wasn't it, or was it about along the same line?

Mr. WIGGIN. Well, our figures were small. It was a small bank.

Mr. PECORA. Take, for instance, the action taken by the board of the bank authorizing the payment of additional compensation to its senior and junior officers for the year 1929. I have before me what purports to be a copy of resolutions adopted by the board of directors of the bank at a meeting thereof held on December 18, 1929, which was furnished to us by the file department of the bank, which resolution reads as follows:

Resolved that in view of the large amount of additional work imposed on the officers and employees of the bank and the extra hours of their service during a considerable period of time prior to and in connection with the close of the year, in addition to the stated compensation which the bank has agreed to pay them respectively, each of the officers, with the exception of the chairman of the board of directors, the vice chairman of the board of directors, the chairman of the executive committee, the president, the vice presidents and the second vice presidents, and each of the employees of the bank, be paid such sum, not exceeding 10 percent of his or her salary, as the principal officers of the bank shall deem proper; and be it further

Resolved, that in view of the heavy demands made during the year 1929 upon the services and time of the senior officers and certain others of the officers and senior employees of the bank, up to the sum of \$325,000 be paid over to the chairman of the board of directors not later than December 31, 1929, to be by him distributed to the chairman of the board of directors, the chairman of the executive committee, the president, and such of the vice presidents and other officers and senior employees of the bank as the chairman of the board of directors in his discretion shall determine, and in such amounts and at such times as he shall determine, which sums shall be in addition to the stated compensation of such officers and employees for the year 1929.

Do you recall that resolution, Mr. Wiggin, in substance?

Mr. WIGGIN. I do now; yes, sir.

Mr. PECORA. In pursuance of that resolution of the allotments of this sum of \$325,000 referred to in that resolution you received \$100,000 thereof, which represented 40.3 percent of the total.

Mr. CONBOY. A hundred thousand cannot be 40 percent of 325,000.

Mr. PECORA. For the year 1928.

Mr. CONBOY. That percentage cannot be right. A hundred cannot be 40 percent of 325.

Mr. PECORA. Oh, no; that is for the year 1928. For the year 1929 you received \$100,000, which represented 31.40 percent of the total of \$325,000. I understand that that is based upon the fact that instead of distributing \$325,000 there was only \$318,000 distributed, of which you received \$100,000.

Mr. WIGGIN. I don't remember.

Mr. PECORA. Who made that determination with regard to the portion of this fund that was set aside for additional compensation for senior officers?

Mr. WIGGIN. You mean the proportion to me?

Mr. PECORA. Yes, sir.

Mr. WIGGIN. My associates always suggested the amount and I always took it up with the board or the committee to explain what they wanted to do.

Mr. PECORA. Who do you mean by your associates?

Mr. WIGGIN. The president, vice presidents.

Mr. PECORA. Well, did you also, as chairman of the governing board, help to fix the amounts of their additional compensation?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. You helped to fix theirs and they helped to fix yours; is that right?

Mr. WIGGIN. We all sat in together.

Mr. PECORA. And was substantially the same practice followed with regard to the distribution of additional compensation in the years in which distributions were made?

Mr. WIGGIN. Oh, I think so. Somebody had to get together and try to fix what they thought were the equitable amounts.

The CHAIRMAN. Mr. Wiggin and Mr. Conboy, you may report tomorrow morning to us whether you are prepared with this material that was inquired about by that time. Then we can have an executive session a little later. But you will probably be able to tell us in the morning about whether you have the data.

Mr. CONBOY. That is what has been referred to as the "rescue party"?

Mr. PECORA. Yes.

Mr. WIGGIN. There is one point that I want to make clear, Mr. Chairman. I can remember certain "rescue parties." I do not know that I can remember all of them. There may be some I have forgotten. And there is no record of anything that distinguishes rescue loans from other loans. It is a question of memory.

The CHAIRMAN. Perhaps some of your associates can refresh your memory, and perhaps you have some letters or correspondence or data which will enable you to give us that information in executive session.

Mr. CONBOY. I presume it will be very largely a matter of characterization by the witness himself whether it comes in that category.

Senator COUZENS. You and your associates better get together what you want and then submit it to the committee in executive session.

The CHAIRMAN. We will take a recess until 10 o'clock tomorrow morning.

(Thereupon, at 4 p.m., the subcommittee took a recess until the following morning at 10 a.m.)

COMMITTEE EXHIBIT No. 1, OCTOBER 17, 1933

Certificate for less than 100 shares.  
No. 00000.

Certificate for less than 100 shares.  
Shares —.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

This is to Certify that \_\_\_\_\_ is the owner of \_\_\_\_\_ shares of the par value of Twenty Dollars each of the Capital Stock of The Chase National Bank of the City of New York, transferable only on the books of the Bank by the holder hereof in person or by duly authorized Attorney upon the surrender of this Certificate properly endorsed.

The agreement of March 21, 1917, as amended, between all the shareholders of The Chase National Bank of the City of New York and The Chase Corporation, to which the holder of this Certificate, by the acceptance thereof and otherwise, has become a party, provides that no shareholder of either corporation will sell, pledge or otherwise dispose of or transfer, whether voluntarily, by operation of law or otherwise, any share or interest therein in either corporation without at the same time transferring to or vesting in the same party an equal number of shares, or the same interest therein, in the other; also that such shareholder will not transfer any of such shares, or any interest therein, otherwise than as permitted by the certificate of incorporation of The Chase Corporation and as stated in the stock Certificate of that corporation on the reverse side hereof.

Witness the facsimile seal of the bank and the signatures of its duly authorized officers.

Dated \_\_\_\_\_

[SEAL]

\_\_\_\_\_,  
Chairman of the Board.

\_\_\_\_\_,  
Assistant Cashier.

Certificate for less than 100 shares  
No. F00000

Certificate for less than 100 shares  
\_\_\_\_\_ shares

THE CHASE CORPORATION

(Incorporated under the laws of the State of New York)

THIS IS TO CERTIFY that \_\_\_\_\_ is the owner of \_\_\_\_\_ shares of the fully-paid and non-assessable stock of the par value of one dollar (\$1) each of THE CHASE CORPORATION, transferable only on the books of the corporation by the holder hereof in person or by duly authorized attorney, upon the surrender of this certificate properly endorsed.

The certificate of incorporation of the corporation, as amended, provides that no share or shares of stock of the corporation issued to any stockholder of The Chase National Bank of the City of New York (hereinafter called the Bank) as such shall, nor shall any interest therein, be sold, pledged, or otherwise disposed of or transferred, either voluntarily, by operation of law or otherwise, except in each instance and from time to time together with a transfer to the same person or persons of a like interest in an equal number of shares of stock of the Bank and that the sale, pledge, or other disposition or transfer of any shares of stock of the Bank or any interest therein, either voluntarily, by operation of law or otherwise, by or in behalf of any such stockholder of the bank or anyone claiming from or through such stockholder, either directly or by



mesne transfers, shall, if and to the extent that effect may then be given by law to this provision, operate *ipso facto* as a transfer to the same person or persons of a like interest in an equal number of shares of the stock of the corporation. Reference is hereby made to said certificate of incorporation for the terms and conditions under which any shares of stock, now or hereafter authorized, shall be issued by the corporation.

This certificate is not valid until countersigned by the transfer agent and registered by the registrar.

Witness the facsimile seal of the corporation and the facsimile signatures of its duly authorized officers.

Dated \_\_\_\_\_

R. L. CLARKSON, *President*,  
HENRY HARGREAVES, *Secretary*.

Countersigned:

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK  
*Transfer Agent*.

By \_\_\_\_\_,  
*Assistant Cashier*.

Registered:

BANKERS TRUST Co.,  
*Registrar*.

By \_\_\_\_\_,  
*Assistant Secretary*.

The agreement of March 21, 1917, as amended, between all the stockholders of The Chase National Bank of the City of New York and The Chase Corporation, to which the holder of this Certificate, by the acceptance thereof and otherwise, has become a party, provides that no shareholder of either corporation will sell, pledge or otherwise dispose of or transfer, whether voluntarily, by operation of law or otherwise, any share or interest therein in either corporation without at the same time transferring to or vesting in the same party an equal number of shares, or the same interest therein, in the other.

For Value Received \_\_\_\_\_ hereby sell, assign, and transfer unto \_\_\_\_\_ shares of the Capital Stock of The Chase National Bank of the City of New York and the same number of shares of the capital stock of The Chase Corporation, represented respectively by the within stock certificate of said Bank and the foregoing stock certificate of said corporation, and do hereby irrevocably constitute and appoint \_\_\_\_\_ attorney, to transfer said shares on the respective books of said corporations, with full power of substitution in the premises.

Dated \_\_\_\_\_

In the presence of: \_\_\_\_\_

NOTICE: The signature to this assignment must correspond with the name as written upon the face of the certificates, in every particular, without alteration or enlargement or any change whatever.

(This space must not be covered in any way)

#### COMMITTEE EXHIBIT No. 2, OCTOBER 17, 1933

AGREEMENT DATED JANUARY 15, 1930, WITH BANKERS TRUST COMPANY, AS DEPOSITARY, INCORPORATING ALL THE PROVISIONS IN EFFECT OF THE AGREEMENT DATED MARCH 21, 1917, AS HERETOFORE AMENDED, BETWEEN ALL THE STOCKHOLDERS OF THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK AND OF CHASE SECURITIES CORPORATION

Whereas under date of March 21, 1917, all of the stockholders of The Chase National Bank of the City of New York (hereinafter called the Bank) entered into an agreement (hereinafter called the Agreement) with the Committee therein named and thereby constituted and with Bankers Trust Company, of the City of New York, as depositary (therein and hereinafter called the Depositary); and

Whereas Chase Securities Corporation (hereinafter called the Securities Corporation) was organized under and pursuant to the provisions of the Agreement and, as therein contemplated, became entitled to issue, and did issue,

to the shareholders of the Bank *pro rata* 100,000 of its shares without par value; and

Whereas at the time of the organization of the Securities Corporation the capital stock of the Bank consisted of \$10,000,000, divided into 100,000 shares of the par value of \$100 each, all of which, together with said 100,000 shares of the Securities Corporation, were deposited under the Agreement with the Depositary, which thereupon duly issued its Receipts therefor as provided in the Agreement; and

Whereas the Agreement provided that it could be amended or modified with the consent of the registered holders of 75 percent of the number of shares of the Bank and of the Securities Corporation, certificates for which are then held under the Agreement by the Depositary; and

Whereas the capital stock of the Bank has been successively increased to \$105,000,000, and is now divided into 5,250,000 shares of the par value of \$20 each, and the capital stock of the Securities Corporation has been successively increased to 5,250,000 shares without par value; and

Whereas the Agreement has been amended from time to time and, with the consent of the registered holders of at least seventy-five percent (75%) of the number of shares of the Bank and of the Securities Corporation, certificates for which were then held under the Agreement by the Depositary, all of said shares of the Bank and of the Securities Corporation have been deposited under the Agreement by the holders thereof and the Depositary has duly issued Receipts therefor as provided in the Agreement, as amended, with the same effect as though said additional shares had been held under the Agreement at the time when, as therein provided, the Depositary was first authorized to issue Receipts representing shares of the Bank and of the Securities Corporation; and

Whereas, thereafter, as any of said 5,250,000 shares of the Bank and said 5,250,000 shares of the Securities Corporation and the Receipts representing the same were transferred and said Receipts surrendered, the Depositary issued other Receipts in lieu of those surrendered; and

Whereas the registered holders of more than seventy-five percent (75%) of the number of shares of the Bank and of the Securities Corporation, certificates for which were then held by the Depositary under the Agreement, as amended, by consents in writing without a meeting (such consents being filed with the Bank), have amended or modified the Agreement as of August 26, 1929, so that the registered holders of sixty-six and two-thirds percent ( $66\frac{2}{3}\%$ ) of the number of shares of the Bank and of the Securities Corporation, certificates for which are then held by the Depositary under the Agreement, as amended, at a meeting thereof duly called for the purpose or by consent of such holders in writing without a meeting, may amend or modify said Agreement at any time and from time to time; and

Whereas the registered holders of more than sixty-six and two-thirds percent ( $66\frac{2}{3}\%$ ) of the number of shares of the Bank and of the Securities Corporation, certificates for which were then held by the Depositary under the Agreement, as amended, have by consents in writing without a meeting (such consents being filed with the Bank) appointed Philip G. Bartlett, Seward Prosser, and Eldon Bisbee, or any one or more of them, the attorneys or attorney of said holders (hereinafter called said attorney), with full power and authority to make any and all changes deemed by them advisable in the Agreement, as amended, so that it shall provide that (1) stock certificates of the Bank and of the Securities Corporation, in such form as shall be approved by the respective Boards of Directors of the Bank and of the Securities Corporation and by said attorney may be issued and delivered to their stockholders, in lieu of the Receipts heretofore issued to them by the Depositary, at and/or after such time as a majority of the members of the Board of Directors of the Securities Corporation, as constituted from time to time, shall determine as evidenced by a writing signed by them; (2) each of such stock certificates of the Bank and of the Securities Corporation so issued shall bear a legend on the face thereof providing, in such form as said attorney shall deem proper and as shall be approved by the respective Boards of Directors of the Bank and of the Securities Corporation, that each of the holders thereof has agreed and, by the acceptance thereof, thereby agrees that he will not separately sell any shares of the Bank or of the Securities Corporation and that he will not sell any of his shares in either corporation without at the same time selling to the same person an equal number of shares in the other, nor will he transfer any of such shares otherwise than as permitted and provided in the Certificate

of Incorporation of the Securities Corporation and the Agreement, as amended, and (3) the members of said Board of Directors of the Securities Corporation, as constituted from time to time, acting by a majority thereof, shall be empowered to enforce all the provisions of the Agreement, as amended, in behalf of any one stockholder or more than one stockholder party or parties thereto; and to do all acts and things necessary or proper to make such amendments effectual; and

Whereas, in and by the Agreement, it is provided that, after the issue by the Depositary of Receipts representing all of the stock of the Bank and all of the stock of the Securities Corporation deposited thereunder, as therein originally contemplated, the Committee therein named shall cease to exist, and any and all rights, duties, powers and authority theretofore vested in it shall become vested in the Board of Directors of the Securities Corporation as constituted from time to time; and

Whereas it has been deemed advisable to incorporate into this instrument all of the provisions of the Agreement, as amended, which, together with the amendments thereto authorized by said attorney, will constitute all of the provisions of the Agreement in effect at the time of and after the execution and delivery of this instrument:

Now, Therefore, in consideration of the premises, Agreement, as heretofore amended, is hereby further amended and modified so that, as to all portions thereof not heretofore performed, it shall read as follows:

First: Each holder of a share or shares of stock of the Bank and of the same number of shares of the Securities Corporation shall be entitled to receive, on and after such date as a majority of the members of the Board of Directors of the Securities Corporation, as then constituted, shall determine by a writing signed by them, and until such majority, as then constituted, shall otherwise determine by a writing signed by them, certificates thereof issued, respectively, by the Bank and by the Securities Corporation substantially in the forms of those hereunto attached marked respectively, Exhibit A and Exhibit B and hereby made a part hereof, which forms have been approved by their respective Boards of Directors; and each holder of a fraction of a share of the Bank and of the same fraction of a share of the Securities Corporation shall be entitled to receive, on and after such date as a majority of the members of the Board of Directors of the Securities Corporation, as then constituted, shall determine by a writing signed by them, and until such majority, as then constituted, shall otherwise determine by a writing signed by them, scrip certificates thereof issued respectively by the Bank and by the Securities Corporation substantially in the forms of those hereunto attached marked respectively Exhibit C and Exhibit D and hereby made a part hereof, which forms have been approved by their respective Boards of Directors, with the reservations that, in the event that it is deemed advisable by said Boards of Directors at any time to issue bearer scrip certificates transferable merely by delivery, said forms may be changed in the manner and to the extent appropriate to that end, which reservations are approved by said attorney.

Each such stock and each such scrip certificate of the Bank shall bear thereon a legend substantially in the form of that hereunto attached marked Exhibit G and hereby made a part hereof; and each such stock and each such scrip certificate of the Securities Corporation shall bear thereon a legend substantially in the form of that hereunto attached marked Exhibit H and hereby made a part hereof.

Said stock certificates and said scrip certificates shall be so arranged that each certificate representing a share or shares of the capital stock of the Securities Corporation shall be engraved or printed upon the reverse side of a stock certificate representing the same number of shares of the capital stock of the Bank and each scrip certificate representing a fraction of a share of the capital stock of the Securities Corporation shall be engraved or printed on the reverse side of a scrip certificate representing the same fraction of a share of the capital stock of the Bank so that the share or shares, or the fraction of a share, represented by each stock or scrip certificate of the Bank and the share or shares, or the fraction of a share, represented by each stock or scrip certificate of the Securities Corporation on the reverse side thereof shall be transferable by a single assignment (unless said scrip certificates shall be transferable merely by delivery) in the form appearing below the stock or scrip certificate, as the case may be, of the Securities Corporation. The forms of assignment of said stock certificates and the shares represented thereby



and of said scrip certificates (other than those transferable merely by delivery) and all rights represented thereby shall be substantially the same as those hereunto attached marked respectively Exhibit E and Exhibit F and hereby made a part hereof.

Second: Each holder of a Receipt for full shares or of a Scrip Receipt for fractions of shares by the acceptance thereof and/or otherwise, has become and is now a party to the Agreement and each holder of stock certificates or scrip certificates substantially in the forms of those hereunto annexed marked respectively Exhibit A, Exhibit B, Exhibit C, Exhibit D, if not already a party, by the acceptance thereof, shall become a party to the Agreement and shall be held to be included under the designation "Stockholders" as used in the Agreement, with the same effect as though such holder had personally signed the Agreement; and the transfer of any such Receipt or Scrip Receipt, stock certificates or scrip certificates, in accordance with the provisions of the Agreement as hereby amended, shall entitle the transferee to all the rights and privileges and subject such transferee to all of the obligations of his or its transferor thereunder and hereunder.

Third: On or after the date when stock and scrip certificates of the Bank and of the Securities Corporation are to be issued as provided in Clause First hereof, and until a majority of the members of the Board of Directors of the Securities Corporation, as then constituted, shall otherwise determine as evidenced by a writing signed by them, the transferee of any shares or of any fractions of shares represented by any Receipt or Scrip Receipt or by any stock or scrip certificates of the Bank and of the Securities Corporation, arranged as provided in Clause First hereof and respectively in the forms and bearing the legends hereunto attached marked Exhibit A, Exhibit B, Exhibit C, Exhibit D, Exhibit G, and Exhibit H, shall be entitled to receive only a stock or scrip certificate or certificates of the Bank and a stock or scrip certificate or certificates of the Securities Corporation respectively so arranged, in such forms and bearing such legends, all of which last mentioned certificates shall together represent the same number of shares, or the same fraction of a share, of the Bank and of the Securities Corporation as the number or fraction transferred; and the record holder of any such Receipt or Scrip Receipt or stock or scrip certificates duly surrendered for cancellation shall be entitled to receive only a stock or scrip certificate or certificates of the Bank and a stock or scrip certificate or certificates of the Securities Corporation for any shares, or fractions of shares, of the Bank and of the Securities Corporation represented thereby and not transferred, which certificates shall be arranged, shall be respectively in the same forms and bear the same legends as hereinbefore provided with respect to the certificates for the shares, or fractions of shares, then transferred.

On or after the date fixed for delivery of stock and scrip certificates of the Bank and of the Securities Corporation as hereinbefore provided, and until a majority of the members of the Board of Directors of the Securities Corporation, as then constituted, shall otherwise determine as evidenced by a writing signed by them, any holder of a Receipt for full shares or of a Scrip Receipt for fractions of shares may surrender the same to the Depositary and receive from the Bank and the Securities Corporation in lieu thereof a stock or scrip certificate or certificates of the Bank and of the Securities Corporation representing the same number, or the same fraction, of shares in each corporation as the Receipt or Scrip Receipt surrendered, which stock or scrip certificate or certificates shall be arranged, in the forms and bearing the legends as hereinbefore provided and shall be registered in the same name as that in which the surrendered Receipt or Scrip Receipt was registered.

Upon surrender to the Depositary, on or after the date so fixed for the issuance of stock and scrip certificates of the Bank and of the Securities Corporation, and until a majority of the members of the Board of Directors of the Securities Corporation, as then constituted, shall otherwise determine as evidenced by a writing signed by them, of a Receipt for full shares or of a Scrip Receipt for fractions of shares, together with an assignment of the shares or (unless said Scrip Receipt be transferable merely by delivery) fractions of shares represented thereby, the Depositary shall assign, as attorney for the record holder of such Receipt or Scrip Receipt, the stock representing the shares or (unless the same be transferable merely by delivery) the scrip certificates representing the fractions of shares, assigned by the holder of said Receipt or Scrip Receipt, and deliver such certificates, together with the surrendered Receipt or Scrip Receipt, respectively, to the Bank and the Securities Corporation;

and, thereupon, the Bank and the Securities Corporation will deliver to the transferee of said shares or fractions of shares, stock or scrip certificates, for the number or fraction of shares transferred, arranged, in the forms and bearing legends as hereinbefore provided. The Depositary shall also deliver to the Bank and the Securities Corporation any Receipt or Scrip Receipt, together with the stock or scrip certificate or certificates representing the shares, or fractions of shares, covered thereby, surrendered to the Depositary in order that stock certificates or scrip certificates for the same number of shares, or fraction of shares, may be issued and delivered to the record holder thereof in lieu of such Receipt or Scrip Receipt. The Depositary may cancel any and all Receipts or Scrip Receipts before delivering the same together with the stock or scrip certificate or certificates covered thereby to the Bank and the Securities Corporation. Any and all stock or scrip certificates so delivered by the Depositary to the Bank and the Securities Corporation shall be canceled by the Bank and the Securities Corporation contemporaneously with the issue and delivery to or for account of the Stockholders of such stock or scrip certificates.

Any and all shares of the Bank and of the Securities Corporation, and each fraction of any such share, issued on or after the date so fixed for the issue of stock and scrip certificates of the Bank and of the Securities Corporation, until a majority of the members of the Board of Directors of the Securities Corporation, as then constituted, shall otherwise determine as evidenced by a writing signed by them, to any stockholder of the Bank and of the Securities Corporation who is now or shall hereafter become a party hereto, shall be represented by a stock or scrip certificate or certificates arranged, in the forms and bearing legends as hereinbefore specified, which stock or scrip certificates and the shares, or fractions thereof, of the Bank and of the Securities Corporation represented thereby, shall not be separately assignable or transferable, but shall be assignable and transferable only together and (except in the case of scrip certificates transferable merely by delivery) in the manner hereinbefore provided so that any transfer of shares, or a fraction of a share, in either corporation will, *ipso facto*, transfer to the same transferee the same number of shares, or the same fraction of a share, in the other.

Fourth: A majority of the members of the Board of Directors of the Securities Corporation, as then constituted, may at any time and from time to time, by a writing signed by them, authorize and direct that for any period or periods of time in said writing specified there shall be issued hereunder and delivered to the Stockholders representing shares or fractions of shares of stock of the Bank and of the Securities Corporation either (a) stock and scrip certificates of the Bank and of the Securities Corporation respectively so arranged, in the forms, bearing legends and transferable as hereinbefore provided or (b) Receipts and Scrip Receipts of the Depositary substantially in the forms hereunto attached marked respectively Exhibit I and Exhibit J and hereby made a part hereof (with the reservation that, in the event it is deemed advisable by the respective Boards of Directors of the Bank and Securities Corporation at any time to issue bearer Scrip Receipts transferable merely by delivery, the form of Scrip Receipt may be changed by the Depositary in the manner and to the extent appropriate to that end).

If at any time a majority of the members of the Board of Directors of the Securities Corporation, as then constituted, shall so authorize and direct that Receipts and Scrip Receipts of the Depositary shall be issued hereunder representing shares or fractions of shares of stock of the Bank and of the Securities Corporation, as hereinbefore provided, the Stockholders hereby agree to deposit the stock and scrip certificates representing an equal number of shares or the same fraction of shares of the Bank and of the Securities Corporation then held by them with the Depositary, to be held by it under and pursuant to the provisions of the Agreement, and the Depositary shall deliver to the Stockholders Receipts and Scrip Receipts therefor in the forms hereinbefore provided, with the same effect as though said shares and fractions of shares had been held under the Agreement at the time when the Depositary was first authorized to issue its Receipts representing shares of the Bank and of the Securities Corporation.

Shares of the Bank and of the Securities Corporation represented by Receipts of the Depositary or fractions of shares of the Bank and of the Securities Corporation represented by Scrip Receipts of the Depositary may be transferred together but only upon surrender to the Depositary of the Receipt or the Scrip Receipt representing the same, with a properly executed instrument of



transfer and power of attorney substantially in the forms hereunto attached, marked respectively Exhibit K and Exhibit L, and hereby made a part hereof (unless the Scrip Receipt shall be transferable merely by delivery). Upon any such transfer, the Depositary will issue a new Receipt or a new Scrip Receipt to the transferee upon the deposit with it by the transferee, or by his duly authorized attorney, subject to the terms and provisions of the Agreement, of stock certificates for shares of the Bank and of the Securities Corporation or scrip certificates representing fractions of shares of the Bank and of the Securities Corporation so transferred, registered in the name of the transferee (unless said scrip certificates shall be transferable merely by delivery).

Fifth: The members of the Board of Directors of the Securities Corporation, as constituted from time to time, acting by a majority thereof, shall be and hereby are authorized to enforce all of the provisions of the agreement in behalf of any of the Stockholders.

Sixth: Until such time as the Agreement shall be terminated by the vote of the holders of at least sixty-six and two-thirds per cent. ( $66\frac{2}{3}\%$ ) of the number of shares of the Bank and of the Securities Corporation then subject to its terms and provisions, at a meeting thereof duly called for the purpose or by consent in writing of such holders without a meeting, each of the Stockholders agrees that he will not separately sell, pledge or otherwise dispose of or transfer, whether voluntarily, by operation of law or otherwise, any share or interest therein of the capital stock of the Bank or of the Securities Corporation, that he will not sell, pledge or otherwise dispose of or transfer, whether voluntarily, by operation of law or otherwise, any of his shares or any interest therein in either corporation without at the same time selling, pledging or otherwise disposing of or transferring to or vesting in the same party an equal number of shares, or the same interest therein, in the other, and that he will not transfer any of such shares, or any interest therein, otherwise than as permitted by the Certificate of Incorporation of the Securities Corporation.

Seventh: The Agreement is not intended to affect the liability of stockholders of the Bank under any statutes now or hereafter existing.

Eighth: Full voting power with respect to the shares of both the Bank and the Securities Corporation shall at all times be vested in the Stockholders; and all dividends upon stock of the Bank and all dividends upon stock of the Securities Corporation shall be paid directly to the respective Stockholders entitled thereto, provided, however, that stock or scrip certificates for stock dividends of the Bank and of the Securities Corporation upon shares subject to the provisions of the Agreement, as amended, shall be subjected in all respects to the terms and provisions of the Agreement then in effect regulating the issue of shares of said corporations and/or certificates representing the same.

Ninth: The Agreement may be amended or modified at any time or from time to time, or may be terminated, by the vote of the registered holders of at least sixty-six and two-thirds per cent. ( $66\frac{2}{3}\%$ ) of the number of shares of the Bank and of the Securities Corporation then subject to its terms and provisions, at a meeting duly called for the purpose or by consent of such holders in writing without a meeting. Unless so amended or modified or unless terminated as provided in Clause Sixth hereof, the Agreement shall be in force so long as the Bank and/or the Securities Corporation and/or their respective successors shall continue in business.

In the event of the termination of the Agreement at any time, the stock certificates for shares and scrip certificates for fractions of shares of the Bank and of the Securities Corporation held hereunder by the Depositary shall be delivered by the Depositary to the holders of the Receipts and Scrip Receipts respectively representing said shares and fractions of shares, upon surrender of the Receipts and Scrip Receipts properly endorsed; and the holders of stock and/or scrip certificates arranged, in the forms and bearing legends as hereinbefore provided, shall be entitled to separate stock and/or scrip certificates of the Bank and of the Securities Corporation, separately transferable and without any legend upon either thereof.

Tenth: The Depositary may at any time resign by delivering its resignation in writing to the President or to any Vice-President of the Bank and to the President or any Vice-President of the Securities Corporation, and, in that event, a new Depositary may be appointed by the holders of a majority in amount of the stock of the Bank and of the Securities Corporation then subject to the



terms and provisions of the Agreement. A majority of the members of the Board of Directors of the Bank may appoint a successor Depositary to act until a new Depositary is appointed by the Stockholders as aforesaid. Any such appointment of a new Depositary shall be evidenced by a writing signed by the holders of such majority in amount of stock, as aforesaid, or by such majority of the members of the Board of Directors of the Bank as constituted from time to time; and, forthwith upon delivery of such writing to the retiring Depositary and upon payment of its charges and disbursements then remaining unpaid, the retiring Depositary shall deliver to the new Depositary therein appointed all certificates for shares of the Bank and for shares of the Securities Corporation then held by it under the Agreement. The term "Depositary" as used herein shall include any successor or successors.

Eleventh: A copy of the Agreement, as amended, shall be lodged with the Depositary at its principal office in the City of New York and shall always during business hours be open to inspection of any stockholder of the Bank and the Securities Corporation.

Any writing signed, as hereinbefore provided, by a majority of the members of the Board of Directors of the Securities Corporation, as then constituted, shall be delivered to the Depositary.

Twelfth: The Depositary shall incur no liability or responsibility hereunder except for wilful misconduct or gross negligence; and is named as a party in and executes these presents only as evidence of its willingness to act as Depositary and otherwise in accordance with the provisions of the Agreement.

The Depositary shall be protected in any action taken or omitted by it in reliance upon any notice, resolution, vote, request, consent, certificate, affidavit, statement, note, or other paper or document believed by it to be genuine and to have been delivered and signed by the proper party or parties.

The Depositary may select and employ, in connection with the acts which it is required or may perform under the Agreement, suitable agents or attorneys, whose reasonable compensation shall be paid the Depositary by the Securities Corporation; and the Depositary shall, in no event, be liable for any neglect, omission, mistake, or misconduct of any such agent or attorney, reasonable care being exercised in his selection.

The Depositary shall be under no obligation to institute or defend any proceeding, suit, or litigation, or to take any action by reason of its being Depositary hereunder, which, in its opinion, will be liable to involve it in expense or liability, until the amount of such expense shall be advanced and until it shall be indemnified, as often as may be required, to its full satisfaction, for all costs and liabilities of any kind which, in its opinion, such proceeding, suit or litigation may cause.

In case at any time it shall be necessary or proper for the Depositary, its successor or successors, to determine if it will take or refrain from taking any action which it may be requested to take under the Agreement, the Depositary may advise with counsel, at the expense of the Securities Corporation, whose opinion shall protect the Depositary, its successor or successors, in any action it or they may take or refrain from taking in reliance thereon.

The Depositary may act in any capacity for the Bank and/or the Securities Corporation and is authorized to follow any and all instructions from time to time received from a majority of the members of the Board of Directors of the Securities Corporation, as constituted from time to time.

Thirteenth: The Agreement shall inure to the benefit of and be binding upon the personal representatives, successors and assigns of the Stockholders, upon the members of the Board of Directors of the Securities Corporation, as constituted from time to time, and upon the successors of the Depositary.

Fourteenth. Pursuant to the authority vested in them, a majority of those now constituting the Board of Directors of the Securities Corporation hereby determine that June 2, 1930, shall be the date on and after which (and until otherwise determined as hereinbefore provided) stock and scrip certificates of the Bank and of the Securities Corporation respectively so arranged, in the forms, bearing legends and transferable as herein provided, shall be issuable to each holder of a share or shares of stock of the Bank and of the same number of shares of the Securities Corporation and to each holder of a fractional share of the Bank of the same fractional share of the Securities Corporation who is now or shall become a party to the Agreement as herein provided.

In witness whereof said Philip G. Bartlett, Seward Prosser, and Eldon Bisbee, or one or more of them, as agents or agent for the holders of Receipts of the Depositary, as indicated on the list hereto attached marked "A", have hereunto subscribed their names, the other stockholders hereinabove mentioned have signed these presents and set opposite their names the number of shares represented by Receipts of the Depositary by them respectively held, a majority of those now constituting the Board of Directors of the Securities Corporation have signed these presents, and the Depositary has caused these presents to be executed by its duly authorized officers and its corporate seal to be hereunto affixed, all as of January 15, 1930.

SEWARD PROSSER,  
ELDON BISEE,

*As agents for those named in and holding the number of shares set  
opposite their respective names on the list hereto attached marked "A."*

Names of stockholders signing in person:

A. H. Wiggin, R. L. Clarkson, John McHugh, C. S. McCain, C. J. Schmidlapp, Reeve Schley, H. G. Freeman, W. P. Holly.

Majority of those now constituting the Board of Directors of Chase Securities Corporation:

A. H. Wiggin, H. G. Freeman, John McHugh, W. P. Holly, Murray W. Dodge, Frank Callahan, Wm. L. McKee, D. A. Holmes, C. J. Schmidlapp, Reeve Schley, R. L. Clarkson, Robert C. Ream, C. S. Sargent, F. P. Small.

[CORPORATE SEAL.]

BANKERS TRUST COMPANY, *Depositary*,  
By HENRY J. COCHRAN, *President*.

Attest:

E. E. BEACH, *Assistant Secretary*.

#### EXHIBIT A

[Form of stock certificate of the Bank]

No.-----

-----Shares

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

This is to certify that ----- is the owner of -----  
----- Shares of the par value of Twenty Dollars each of the Capital  
Stock of The Chase National Bank of the City of New York, transferable only  
on the books of the Bank by the holder hereof in person or by duly authorized  
Attorney, upon the surrender of this Certificate properly indorsed.

Witness the facsimile seal of the Bank and the signatures of its duly  
authorized officers.

Dated -----

#### EXHIBIT B

[Form of stock certificate of the Securities Corporation]

No.-----

-----Shares

CHASE SECURITIES CORPORATION

Incorporated under the Laws of the State of New York

This is to certify that ----- is the owner of -----  
----- shares of the fully-paid and non-assessable stock without par  
value of Chase Securities Corporation, transferable only on the books of the  
corporation by the holder hereof in person or by duly authorized attorney,  
upon the surrender of this certificate properly endorsed.

The certificate of incorporation of the corporation, as amended, provides  
that no share or shares of stock of the corporation issued to any stockholder  
of The Chase National Bank of the City of New York (hereinafter called the

Bank) as such shall, nor shall any interest therein, be sold, pledged, or otherwise disposed of or transferred, either voluntarily, by operation of law or otherwise, except in each instance and from time to time together with a transfer to the same person or persons of a like interest in an equal number of shares of stock of the Bank and that the sale, pledge or other disposition or transfer of any shares of stock of the Bank or any interest therein, either voluntarily, by operation of law or otherwise, by or in behalf of any such stockholder of the Bank or anyone claiming from or through such stockholder, either directly or by mesne transfers, shall, if and to the extent that effect may then be given by law to this provision, operate *ipso facto* as a transfer to the same person or persons of a like interest in an equal number of shares of the stock of the corporation. Reference is hereby made to said certificate of incorporation for the terms and conditions under which any shares of stock, now or hereafter authorized, shall be issued by the corporation.

This certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

Witness the facsimile seal of the corporation and the facsimile signatures of its duly authorized officers.

Dated \_\_\_\_\_

Countersigned:

\_\_\_\_\_ Transfer Agent.

Registered:

by \_\_\_\_\_.

\_\_\_\_\_ Registrar.

#### EXHIBIT C

[Form of scrip certificate of the Bank]

No. \_\_\_\_\_

For \_\_\_\_\_ of a share

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK—SCRIP CERTIFICATE IN  
RESPECT OF CAPITAL STOCK

This is to certify that \_\_\_\_\_ is entitled to \_\_\_\_\_  
\_\_\_\_\_ of the right to receive one share of the par value of twenty dollars of the capital stock of The Chase National Bank of the City of New York, a national banking association, subject to the conditions hereinafter set forth.

Upon surrender to said bank of this certificate, together with other similar scrip certificates in respect of its capital stock representing in the aggregate the right to receive one or more full shares of said capital stock, the holder or his duly authorized attorney will be entitled to receive in exchange therefor a certificate for the number thereby called for of full shares of said capital stock as at the time constituted and a new scrip certificate representing the fraction of a right, if any, not covered by the certificate for stock so issued, Provided, however, that the right to exchange this certificate with other scrip certificates in respect of such capital stock for one or more full shares of said capital stock shall not be exercised while the books for the transfer of said capital stock shall be closed. This certificate shall not carry any right to vote or consent in respect of any matter whatsoever or any right to any notice of any meeting of the shareholders of said Bank, nor any right to subscribe for any additional shares of said Bank at any time or from time to time authorized to be offered to shareholders of said Bank. This certificate shall not carry any right to any dividends declared or paid by said Bank, Provided, however, that the registered owner hereof on the record date or dates for any such dividends shall, after this certificate shall have been surrendered with other similar certificates and one or more full shares of the Bank shall have been issued therefor as hereinbefore provided, be entitled to receive the same fraction of the dividends theretofore paid on such date or dates upon one of such full shares as the fraction represented hereby.

This certificate is transferable on the books of said Bank by the holder hereof in person or by duly authorized attorney, upon surrender of this certificate properly endorsed.

Witness the facsimile seal of the Bank and the signatures of its duly authorized officers.

Dated \_\_\_\_\_



## EXHIBIT D

[Form of scrip certificate of the Securities Corporation]

No.-----

For ----- of a share

## CHASE SECURITIES CORPORATION—SCRIP CERTIFICATE IN RESPECT OF STOCK

This is to certify that ----- is entitled to ----- of the right to receive one share without par value of the stock of Chase Securities Corporation, a New York corporation, subject to the conditions hereinafter set forth.

Upon surrender to said Corporation of this certificate, together with one or more similar scrip certificates in respect of its stock representing in the aggregate the right to receive one or more full shares of said stock, the holder or his duly authorized attorney will be entitled to receive in exchange therefor a certificate for the number thereby called for of full shares of said stock as at the time constituted and a new scrip certificate representing the fraction of a right, if any, not covered by the certificate for stock so issued; provided, however, that the right to exchange this certificate with other scrip certificates in respect of such stock for one or more full shares of said stock shall not be exercised while the books for the transfer of said stock shall be closed. This certificate shall not carry any right to vote or consent in respect of any matter whatsoever or any right to any notice of any meeting of the shareholders of said Corporation, nor any right to subscribe for any additional shares of said Corporation at any time or from time to time authorized to be offered to stockholders of said Corporation. This certificate shall not carry any right to any dividends declared or paid by said Corporation, provided, however, that the registered owner hereof on the record date or dates for any such dividends shall, after this certificate shall have been surrendered with other similar certificates and one or more full shares of said Corporation shall have been issued therefor as hereinbefore provided, be entitled to receive the same fraction of the dividends theretofore paid on such date or dates upon one of such full shares as the fraction represented hereby.

This certificate is transferable on the books of said Corporation by the holder hereof in person or by duly authorized attorney, upon surrender of this certificate properly endorsed.

This certificate is not valid until countersigned by the Transfer Agent.

Witness the facsimile seal of said Corporation and the facsimile signatures of its duly authorized officers.

Dated -----

Countersigned:

----- Transfer Agent.

by -----.

## EXHIBIT E

[Form of assignment of stock certificates and shares represented thereby of the Bank and Securities Corporation]

For Value Received ----- hereby sell, assign and transfer unto ----- shares of the capital stock of The Chase National Bank of the City of New York and the same number of shares of the capital stock of Chase Securities Corporation, represented respectively by the within stock certificate of said Bank and the foregoing stock certificate of said Securities Corporation, and do hereby irrevocably constitute and appoint ----- attorney, to transfer said shares on the respective books of said corporations, with full power of substitution in the premises.

Dated -----

In the presence of:

-----

## EXHIBIT F

[Form of assignment of scrip certificates and all rights represented thereby of the Bank and the Securities Corporation]

For Value Received ----- hereby sell, assign and transfer unto ----- the within scrip certificate of The Chase National Bank of the City of New York and the foregoing scrip certificate of Chase Securities Corporation and all rights represented thereby, and do hereby irrevocably constitute and appoint ----- attorney, to transfer said scrip certificates on the respective books of said corporations, with full power of substitution in the premises.

Dated -----

In the presence of: \_\_\_\_\_

## EXHIBIT G

[Form of legend for stock certificate and scrip certificate of the Bank]

The agreement of March 21, 1917, as amended, between all the shareholders of The Chase National Bank of the City of New York and Chase Securities Corporation, to which the holder of this certificate, by the acceptance thereof and otherwise, has become a party, provides that no shareholder of either corporation will sell, pledge or otherwise dispose of or transfer, whether voluntarily, by operation of law or otherwise, any share or interest therein in either corporation without at the same time transferring to or vesting in the same party an equal number of shares, or the same interest therein, in the other; also that such shareholder will not transfer any of such shares, or any interest therein, otherwise than as permitted by the Certificate of Incorporation of Chase Securities Corporation and as stated in the stock certificate of that corporation on the reverse side hereof.

## EXHIBIT H

[Form of legend for stock certificate and scrip certificate of the Securities Corporation]

The Agreement of March 21, 1917, as amended, between all the stockholders of The Chase National Bank of the City of New York and Chase Securities Corporation, to which the holder of this certificate, by the acceptance thereof and otherwise, has become a party, provides that no shareholder of either corporation will sell, pledge or otherwise dispose of or transfer, whether voluntarily, by operation of law or otherwise, any share or interest therein in either corporation without at the same time transferring to or vesting in the same party an equal number of shares, or the same interest therein, in the other.

## EXHIBIT I

[Form of receipt]

No. \_\_\_\_\_

Shares of Bank and of Securities Corporation

Receipt for Stock of The Chase National Bank of the City of New York and for stock of Chase Securities Corporation deposited under the terms of a certain Agreement between Stockholders of the Bank. A. Barton Hepburn, Francis L. Hine, Henry W. Cannon, and Albert H. Wiggin, as a Committee of such Stockholders, and the undersigned, bearing date March 21st, 1917, as amended (hereinafter called the Deposit Agreement), a copy of which has been lodged with the undersigned.

Bankers Trust Company as Depositary under the Deposit Agreement, has received from (hereinafter called the Depositor) a certificate or certificates for ----- shares of the capital stock of The Chase National Bank of the City

of New York, of the par value of Twenty Dollars (\$20) each, and a certificate or certificates for an equal number of shares of the capital stock of Chase Securities Corporation, without nominal or par value (hereinafter called the Deposited Shares) which certificates are held by the undersigned pursuant to the terms of the Deposit Agreement.

By the acceptance of this receipt, the holder hereof assents to and is bound by all of the provisions hereof and of said Deposit Agreement, and is entitled to all of the benefits and advantages of a depositor thereunder of shares of the Bank and of shares of the Securities Corporation.

Neither said shares of the Bank nor said shares of the Securities Corporation are transferable separately, but this receipt, and all rights and interests represented hereby, are transferable by the registered holder, either in person or by attorney duly authorized, on the books of the Depositary kept for that purpose, upon surrender of this receipt duly assigned, which assignment shall transfer all right, title and interest of the Depositor in the Deposited Shares. By delivering this receipt to the Depositary for transfer, the holder hereof irrevocably constitutes and appoints the Depositary attorney to surrender the certificates for the Deposited Shares and to receive from the Bank and from the Securities Corporation respectively in exchange therefor certificates of stock for the Deposited Shares registered in the name of the transferee hereof as entered upon the records of the Depositary, and hereby irrevocably authorizes the Depositary to hold the same subject to the provisions of the Deposit Agreement.

In witness whereof, Bankers Trust Company, as Depositary, has caused this receipt to be signed by a duly authorized officer.

Dated -----

BANKERS TRUST COMPANY,  
Depositary.

By \_\_\_\_\_,  
Assistant Secretary.

#### EXHIBIT J

[Form of scrip receipt]

No. \_\_\_\_\_ For \_\_\_\_\_ of a Share of Bank and of Securities Corporation.

#### SCRIP RECEIPT

For Scrip Certificates in respect of Capital Stock of The Chase National Bank of the City of New York (hereinafter called the Bank) and of stock of Chase Securities Corporation (hereinafter called the Securities Corporation) deposited under the terms of a certain agreement between Stockholders of the Bank, A. Barton Hepburn, Francis L. Hine, Henry W. Cannon, and Albert H. Wiggin, as a committee of such Stockholders, and the undersigned, bearing date March 21st, 1917, as amended (hereinafter called the Deposit Agreement), a copy of which has been lodged with the undersigned.

Bankers Trust Company as Depositary under the Deposit Agreement, has received from \_\_\_\_\_ (hereinafter called the Depositor) a scrip certificate representing \_\_\_\_\_ of a right to receive one share of the capital stock of The Chase National Bank of the City of New York, of the par value of twenty dollars (\$20) each, and a scrip certificate representing an equal fractional right to receive one share of the stock of Chase Securities Corporation, without nominal or par value (hereinafter called the Deposited Fractional Rights), which certificates are held by the undersigned pursuant to the terms of the Deposit Agreement. By the acceptance of this Scrip Receipt, the holder hereof assents to and is bound by all of the provisions hereof and of the Deposit Agreement, and is entitled to all of the benefits and advantages of a depositor thereunder of scrip certificates of the Bank and of scrip certificates of the Securities Corporation.

Neither said scrip certificates of the Bank, nor said scrip certificates of the Securities Corporation are transferable separately, but this Scrip Receipt, and all rights and interests represented hereby, are transferable by the registered holder, either in person or by attorney duly authorized, on the books of the Depositary kept for that purpose upon surrender of this Scrip Receipt duly as-



signed, which assignment shall transfer all right, title and interest of the Depositor in the Deposited Fractional Rights.

By delivering this Scrip Receipt to the Depositary for transfer, the holder hereof irrevocably constitutes and appoints the Depositary attorney to surrender the scrip certificates for the Deposited Fractional Rights and to receive from the Bank and from the Securities Corporation respectively in exchange therefor scrip certificates for the Deposited Fractional Rights registered in the name of the transferee hereof as entered upon the records of the Depositary, and hereby irrevocably authorizes the Depositary to hold the same subject to the provisions of the Deposit Agreement.

Upon surrender to the Depositary of this Scrip Receipt together with other similar Scrip Receipts representing Deposited Fractional Rights which in the aggregate entitle the holder to the right to receive one or more full shares of the capital stock of the Bank and of the Securities Corporation, the holder hereof irrevocably constitutes and appoints the Depositary attorney to surrender the scrip certificates for the Deposited Fractional Rights represented by all such Scrip Receipts so surrendered and to receive from the Bank and from the Securities Corporation respectively in exchange therefor certificates for the number thereby called for of full shares of said capital stock of the Bank and of said stock of the Securities Corporation, each as at the time constituted, and new scrip certificates representing the fractional rights, if any, not covered by such certificates of stock, all registered in the name of the holder hereof, and hereby irrevocably authorizes the Depositary to hold all the same subject to the provisions of the Deposit Agreement.

In witness whereof, Bankers Trust Company, as Depositary, has caused this Scrip Receipt to be signed by a duly authorized officer.

Dated \_\_\_\_\_

By \_\_\_\_\_, BANKERS TRUST COMPANY,  
Depositary.

By \_\_\_\_\_, Assistant Secretary.

#### EXHIBIT K

[Form of assignment of receipt]

For Value Received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ all of the shares of stock of The Chase National Bank of the City of New York and all of the shares of stock of Chase Securities Corporation, represented by the within receipt and hereby irrevocably constitutes and appoints Bankers Trust Company attorney to transfer in the name of the undersigned the certificates for said shares issued respectively by said Bank and by said Securities Corporation, with full power of substitution in the premises. For value received, the undersigned also hereby sells, assigns, and transfers unto the transferee hereinabove named the within receipt and all rights and interests represented thereby; and hereby irrevocably constitutes and appoints \_\_\_\_\_ attorney to transfer said receipt on the books of the Depositary therein named, with full power of substitution in the premises.

Dated \_\_\_\_\_

In the presence of: \_\_\_\_\_

#### EXHIBIT L

[Form of assignment of scrip receipt]

For Value Received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ the scrip certificate representing the within mentioned fractional right to receive one share of the capital stock of The Chase National Bank of the City of New York and the scrip certificate representing an equal fractional right to receive one share of the stock of Chase Securities Corporation, and hereby irrevocably constitutes and appoints Bankers Trust Company attorney to transfer in the name of the undersigned the scrip certificates repre-

senting said fractional rights issued respectively by said Bank, and by said Securities Corporation, with full power of substitution in the premises. The undersigned also hereby sells, assigns, and transfers unto the transferee hereinabove named the within Scrip Receipt, and all rights and interests represented thereby; and hereby irrevocably constitutes and appoints

\_\_\_\_\_ attorney to transfer said Scrip Receipt on the books of the Depositary therein named, with full power of substitution in the premises.

Dated \_\_\_\_\_

In the presence of—

#### COMMITTEE EXHIBIT 4, OCTOBER 17, 1933

Inv—Adams Express Co.; all dates; mem.; bd. mgrs.; bd. trs.; exec. comm.  
 Inv—American Intl. Corp.; all dates; dir. & mem. exec. comm.  
 Ind—American Locomotive Co.; all dates; dir. & mem. exec. comm.  
 Ind—American Sugar Refining Co.; all dates; dir. & mem. exec. comm.  
 Ins—American Surety Co. of N.Y.; all dates; chm. exec. & fin. comms. & trustee.  
 Ind—American Woolen Co.; December 31, 1931 dir. & mem. exec. comm.; December 31, 1932 & April 30, 1933, dir. & mem. exec. comm. & chm. fin. comm.  
 Ind—Armour & Co.; all dates; voting trustee, dir. & mem. fin. comm.  
 American Express Co.; December 31, 1931 & December 31, 1932.  
 Bkg—American Express Co. Inc.; chm. of board & mem. exec. comm., April 30, 1933; dir. & mem. exec. comm. (both cos.).  
 Inv—American Securities Investing Corp.; December 31, 1932; dir. & voting trustee.  
 Bkg—Bankers Safe Deposit Co.; all dates; dir.  
 Puo—Brooklyn Bus Corporation; all dates; dir.  
 Puo—Brooklyn & Queens Transit Corp.; all dates; dir. & mem. exec. comm.  
 Puo—Brooklyn Manhattan Transit Corp.; all dates; dir. & mem. exec. comm. & chm. fin. comm.  
 Ind—Canadian International Paper Co.; all dates; dir.  
 Bkg—Chase Bank (The); December 31, 1931 & December 31, 1932 chm. bd. of dirs.; April 30, 1933 dir.  
 Hold—Chase Corporation (The); December 31, 1931 & December 31, 1932; chm. bd. of dirs.  
 Hold—Chase Harris Forbes Cos.; December 31, 1931 & December 31, 1932; dir. & mem. exec. comm.  
 Sec—Chase Harris Forbes Corporation; December 31, 1931 & December 31, 1932; dir. & mem. exec. comm.  
 Bkg—Chase National Bank; December 31, 1931 & December 31, 1932; chm. governing bd., dir. & mem. exec. comm.  
 Bkg—Chase Safe Deposit Co.; December 31, 1931 & December 31, 1932; pres. & dir.  
 Bkg—Discount Corporation of N.Y.; all dates; dir.  
 Puo—Coney Island & Brooklyn Terminal Co.; all dates; dir.  
 Bkg—Federal Reserve Bank of N.Y.; December 31, 1932; dir. class A & mem. exec. comm.  
 Ins—Fidelity Phenix Fire Insurance Co.; all dates; dir & mem. exec. comm.  
 Inv—Finance Co. of Gt. Britain & Amer. Ltd.; all dates; chm. Amer. comm. & dir.  
 Ind—Fox Film Corporation; December 31, 1931 & December 31, 1932; voting trustee.  
 Bkg—Greenwich Trust Co. (Conn.); all dates; dir. & mem. exec. comm.  
 Bkg—Greenwich Trust & Title Co.; all dates; dir.  
 Puo—Hudson & Manhattan R.R. Co.; all dates; dir.  
 Min—Inspiration Consolidated Copper Co.; December 31, 1931; dir.  
 Puo—Interborough Rapid Transit Co.; all dates; dir. & mem. exec. comm.  
 Ind—International Agricultural Corp.; all dates; dir. & mem. exec. comm.  
 Ind—International Motor Co.; all dates; dir. & mem. exec. comm.  
 Ind—International Paper Co.; dir. & mem. exec. & fin. comms.; all dates.  
 Pu—International Paper & Power Co.; all dates; dir. & mem. exec. comm.  
 Bkg—Lawyers Title & Guaranty Co.; all dates; dir. & mem. exec. comm.

- Bkg—Lawyers Trust Co.; all dates; dir. & mem. exec. comm.  
Ind—Mack Trucks, Inc.; all dates; dir. & mem. exec. comm.  
Bkg—Mack Acceptance Corp.; all dates; dir.  
Ins—Metropolitan Life Insurance Co.; all dates; dir. & mem. fin. comm.  
Ind—Montreal Locomotive Works; all dates; dir. & mem. exec. comm.  
Inv—Newmont Mining Corp.; all dates; dir. & mem. exec. comm.  
Re—New York Clearing House Bldg. Co.; all dates; dir. & v.p.  
Rr—New York, N.H. & Hartford R.R. Co.; all dates; dir. & mem. exec. comm.  
and comm. on fin. & divd. policy.  
Puo—New York Rapid Transit Corp.; all dates; dir. & mem. exec. comm.  
Ins—Niagara Fire Insurance Co.; all dates; dir. & mem. exec. comm.  
Ind—North Amer. Provision Co.; all dates; dir.  
Ind—Otis Elevator Co.; all dates; dir. & mem. exec. comm.  
Inv—Railway & Express Co.; all dates; dir.  
Inv—Southern Express Co.; all dates; mem. bd. of dirs.  
Puh—Stone & Webster, Inc.; all dates; dir. & mem. exec. comm.  
Inv—Tri Continental Corp.; all dates; dir.  
Ind—Underwood Elliott Fisher Co.; all dates; dir. & mem. fin. comm.  
Inv—Utility Equities Corp.; all dates; dir.  
Ind—Western Union Telegraph Co.; all dates; dir. & chm. exec. comm.  
Ind—Westinghouse Electric & Manuf. Co.; all dates; dir. & mem. fin. & exec. comm.  
Ind—Westinghouse Electric International Co.; all dates; dir.  
Williamsburgh Power Plant Corp.; all dates; dir.



*The Chase National Bank of the City of New York—capital, surplus, undivided profits, reserves for losses, etc., and dividends paid Jan. 1, 1929, to July 31, 1933*

Chase National Bank stock exchanged for stock of:	Date	Capital, including amounts allocated to surplus and undivided profits			Total, not including stock dividend	Stock dividend	Year's net profit	Reserves provided for losses			Cash dividends paid
		Shares	Cash	Stated value				From surplus funds	From profits	Total	
Balances, Dec. 31, 1928.....		600,000			\$137,490,814.74						
Garfield National Bank.....	Jan. 26, 1929.....	10,000		\$2,179,397.29	2,179,397.29						
		610,000									
On July 1, 1929, the Chase National Bank stock was split 5 for 1, increasing the shares outstanding to.....		3,050,000									
12½% stock dividend paid.....	July 1, 1929.....	950,000	\$57,000,000.00		57,000,000.00						
National Park Bank.....	Aug. 28, 1929.....	500,000									
	Aug. 24, 1929.....	750,000		41,392,262.57	41,392,262.57						
	Dec. 31, 1929.....					\$10,000,000					
do.....	May 31, 1930.....	34,980.8	4,479,981.72		4,479,981.72		\$23,591,713.21	\$8,134,564.11	\$8,134,564.11	\$12,145,000	
do.....		2,000,000									
Equitable Trust Co.....	Dec. 31, 1930.....	115,019.2	115,904,375.08		115,904,375.08						
Interstate Trust Co.....	Dec. 31, 1931.....		8,328,870.73		8,328,870.73						
	Dec. 31, 1931.....						28,518,198.16	20,242,679.50	20,242,679.50	20,587,500	
	Dec. 31, 1932.....						38,764,991.13	53,715,892.59	77,715,892.59	27,750,000	
	Dec. 31, 1933.....						30,015,480.90	21,307,500.00	45,307,500.00	16,650,000	
							15,530,001.04	10,833,058.02	60,833,058.02	6,290,000	
Total, Jan. 1, 1929 to July 31, 1933.....			61,479,981.72	167,804,905.67	229,284,887.39	10,000,000	136,420,384.44	98,000,000	114,233,694.22	212,233,694.22	83,422,500
Total, Dec. 31, 1928 to July 31, 1933.....		7,400,000			386,775,702.13	10,000,000	136,420,384.44	98,000,000	114,233,694.22	233,694.22	83,422,500
Add: Net earnings to July 31, 1933.....					136,420,384.44						
Total capital and net earnings.....					508,196,086.57						
Of which there was paid as cash dividends.....				83,422,500.00							
And reserves set up were.....				212,233,694.22							
Leaving capital stock, surplus, and undivided profits, July 31, 1933, as follows:					295,656,194.22						
Capital stock.....				148,000,000.00							
Surplus.....				50,000,000.00							
Undivided profits.....				9,559,802.35							
					207,559,802.35						

COMMITTEE EXHIBIT No. 7, OCTOBER 17, 1933  
*The Chase National Bank of the City of New York*

Name	Title 1	1928		1929		1930		1931 salary	1932 salary	Salary to June 30, 1933
		Salary	Additional compensation	Salary	Additional compensation	Salary	Additional compensation			
A. H. Wiggin.....	Chairman governing board.....	\$175,000	\$100,000	\$175,000	\$100,000	\$218,750	\$75,000	\$250,000	\$220,300	\$52,970
W. W. Aldrich.....	do.....					87,500		150,000	135,556	87,500
C. S. McCain.....	Chairman board of directors.....			28,205	10,000	129,166	40,000	150,000	135,556	64,244
John McHugh.....	Chairman executive committee.....	100,000	10,000	100,000	5,000	77,916	25,000	100,000	92,687	45,125
R. L. Clarkson.....	Vice chairman board of directors.....	75,000		75,000				8,333		
J. C. Anderson.....	do.....									
A. C. Andrews.....	Vice president.....	40,000	5,000	40,000	10,000	45,000	1,000	45,000	41,812	2,083
W. T. Annett.....	do.....					9,750	1,000	10,000		20,375
Samuel Armstrong.....	do.....					12,833		22,000	20,537	10,025
J. N. Babcock.....	do.....					12,833		22,000	20,537	10,025
R. L. Barr.....	do.....	30,000	7,500	30,000		15,000				
C. F. Batchelder.....	do.....							22,000	20,537	1,737
A. E. Bates.....	do.....					12,833		17,800	16,652	8,135
C. H. Beatty.....	do.....			6,269		13,417	500	9,583		
F. W. Black.....	do.....			10,939		31,000	2,500	14,583		
James Bruce.....	do.....					17,500		30,000	27,937	13,625
Carleton Bunce.....	do.....					17,500		30,000	27,937	13,625
J. A. Burns.....	do.....					43,750		75,000	69,562	33,875
H. D. Campbell.....	do.....					21,000	1,050	23,000	7,606	
S. S. Campbell.....	do.....	21,000	1,050	21,000		26,000	1,000	26,000	24,237	11,825
Ralph Cerero.....	do.....			9,166				15,000	14,062	6,875
R. S. Child.....	do.....							25,000	6,250	
W. K. Cleverley.....	do.....					14,583		45,000	22,500	
H. E. Cooper.....	do.....					26,250		45,000	18,687	9,125
W. A. B. Ditto.....	do.....					11,667		20,000	14,062	6,875
G. V. Drew.....	do.....					8,750		15,000	14,062	6,875
P. S. Duryee.....	do.....					8,750		15,000	37,187	18,125
P. J. Ebbott.....	do.....					23,333		40,000	11,333	
W. J. Eck.....	do.....					9,917		17,000	46,437	22,625
M. H. Ewer.....	do.....			17,628		50,000	1,000	50,000		
F. O. Foxcroft.....	do.....			5,035	500	10,554				
J. H. Gannon.....	do.....		5,000	35,000	5,000	40,000	3,000	40,000	37,187	18,125
F. H. Gates.....	do.....			17,000	1,700	9,000	2,000			
J. J. Graeber, Jr.....	do.....					11,667		20,000	18,687	9,125
G. D. Graves.....	do.....	25,000	1,000	25,000	1,000	25,000		25,000	23,312	11,375
W. P. Holly.....	do.....	33,000	10,000	36,000	15,000	40,000	10,000	45,000	41,812	20,375
M. H. Howell.....	do.....	24,000	2,400	25,000	5,000	27,000	2,500	28,000	26,087	12,725





## The Chase National Bank of the City of New York—Continued

Name	Title	1928		1929		1930		1931 salary	1932 salary	Salary to June 30, 1933
		Salary	Additional compensation	Salary	Additional compensation	Salary	Additional compensation			
Siegfried Stern.....	Vice president.....					\$23,333		\$40,000	\$37,187	\$18,125
E. P. Townsend.....	do.....					14,583		25,000	23,312	11,375
J. C. Traplagen.....	do.....					29,167		4,166		
H. W. Vanderpoel.....	do.....					22,000		22,000	16,750	7,500
H. L. VanKleeck.....	do.....			\$7,756		11,250	\$2,000	18,000	16,837	8,225
H. M. Walker.....	do.....					23,333		40,000	37,187	18,125
J. M. Wallace.....	do.....					17,300		35,000	22,484	10,969
G. E. Warren.....	do.....	\$45,000	\$10,000	55,000	\$15,000	60,000	10,000	60,000	55,687	27,125
E. E. Watts.....	do.....			23,000		23,000		23,000	21,462	10,475

# STOCK EXCHANGE PRACTICES

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WEDNESDAY, OCTOBER 18, 1933

UNITED STATES SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON  
BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to adjournment on yesterday, at 10 a.m., in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Townsend, Couzens, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Martin Conboy, counsel for Albert H. Wiggin; Eldon Bisbee, Henry Root Stern, Alfred E. Mudge, Joseph B. Lynch, Julian L. Hagen, and C. Horace Tuttle of Rushmore, Bisbee & Stern, and also Albert of Milbank, William Dean Embree and A. Donald MacKinnon, of Milbank, Tweed, Hope & Webb, counsel for The Chase National Bank and The Chase Corporation.

The CHAIRMAN. The subcommittee will come to order. You may proceed, Mr. Pecora.

## TESTIMONY OF ALBERT H. WIGGIN—Resumed

Mr. PECORA. Mr. Wiggin, in the course of your examination on yesterday you gave some testimony concerning salaries received by you from other corporations which you served as an officer or director during the part of the time that you were the executive head of the Chase National Bank. You testified, among other things, in that respect that you received a salary at the rate of \$20,000 a year from the Brooklyn Manhattan Transit Co., and a salary of \$40,000 a year, or at that rate, from the Armour Co. In the course of that testimony I recall that Senator Townsend asked you a question or two designed to bring out whether or not other directors serving those two corporations received similar salaries, and your answer was a bit ambiguous. Will you answer the question now and tell us definitely whether or not the salary that you received at the rate of \$20,000 a year from the B.M.T. was also paid during that same period to other directors.

Mr. WIGGIN. No, sir. I received that salary as the chairman of the finance committee, and there was no other chairman of the finance committee.

Mr. PECORA. And is that true also of the salary that you received at the rate of \$40,000 a year from the Armour Co.?

Mr. WIGGIN. The Armour Co. salary of \$40,000 ceased some 3 years ago, I think, but I am not sure of the date. The same salary was paid to the other members of the finance committee.

Mr. PECORA. When you replied in answer to the question or questions propounded to you that the salary you received as director was similar to the salary received by other directors in the companies which paid those salaries, did you refer simply to those corporations that paid you as director a salary of \$3,000 a year or less?

Mr. WIGGIN. I don't think there were——

Mr. PECORA (interposing). There were several as I recall in that category.

Mr. WIGGIN. I did not have any salary as director. I think it was always, as I recall, in connection with a title, such as chairmanship of a committee or member of a special committee.

Senator TOWNSEND. And other directors were not paid in that amount?

Mr. WIGGIN. No, sir. All members of the executive committee received the same pay.

Senator TOWNSEND. All members of the committee?

Mr. WIGGIN. If I received a salary as member of an executive committee, then all other members received that salary, too.

Senator TOWNSEND. All right.

Mr. PECORA. Mr. Wiggin, I have before me what purports to be a copy of a report made by you as chairman of the governing board of the Chase National Bank, dated January 13, 1931, and covering the operations of the bank for the year 1930. And on page 6 of that printed report I notice the following observation by you, under the caption of "Wages":

It is not true that high wages make prosperity. Instead, prosperity makes high wages. When wages are kept higher than the market situation justifies, employment and the buying power of labor fall off. American business has proved its good will in dealing with labor on this point in the past year, and in many industries may reasonably ask labor to accept a moderate reduction in wages, designed to reduce costs and to increase both employment and the buying power of labor.

Now, let me ask you: If you felt that way, under the economic circumstances which prevailed at the time when this report was issued by you should salaries of executive officers of the Chase National Bank have been substantially increased during the year 1930, as they seem to have been?

Mr. WIGGIN. The date of this report was when?

Mr. PECORA. January 13, 1931, and purports to be a report of the operations of the bank for the year 1930.

Mr. WIGGIN. Now, let me get that question read, if you please.

Mr. PECORA. The committee reporter will read the question to you [which was done].

Mr. WIGGIN. You are asking me now only for an expression of opinion, I take it?

Mr. PECORA. Certainly. But I take it you were also expressing your opinion in this report.

Mr. WIGGIN. In this report of January 1931?

Mr. PECORA. Yes, sir; and covering the operations and the business of the bank for the year 1930.



Mr. WIGGIN. Yes; but the report is in January of 1931. Am I right about that?

Mr. PECORA. That is the date that is printed on the cover page.

Mr. WIGGIN. And it was to the stockholders, at the meeting held in January of 1931?

Mr. PECORA. Yes.

Mr. WIGGIN. Well, of course, that was my conviction at the time I wrote that.

Mr. PECORA. I do not believe that answers my question, Mr. Wiggin, the question that I propounded to you.

Mr. WIGGIN. Well, what you are asking is, if in 1931 when I thought that, it is reconcilable with an increase in salary——

Mr. PECORA (interposing). For the executive officers——

Mr. WIGGIN (continuing). At the previous date——

Mr. PECORA (interposing). For the year 1930.

Mr. WIGGIN. Yes. I do not see anything that is not reconcilable in the opinion of 1931 that is different from the 1930 action.

Mr. PECORA. This opinion is contained in your printed report to the shareholders of the bank, which bears date January 13, 1931, and you referred to business or economic conditions that prevailed, apparently, during the year 1930.

Mr. WIGGIN. But I am making a report at the stockholders' meeting on that date.

Mr. PECORA. Yes.

Mr. WIGGIN. And that was my opinion at that date.

Mr. PECORA. But, I am asking you——

The CHAIRMAN (interposing). Was there any reduction of the salaries of your officers in 1931?

Mr. WIGGIN. I don't know.

Mr. PECORA. Well, isn't it a fact that your own salary for 1931 was increased to \$250,000 as compared with a salary of \$218,750 that you received for the year 1930?

Mr. WIGGIN. That is a little misleading. The \$218,750 is, evidently, the total amount paid out during the year 1930, and, you see, the salary was smaller in the first half of 1930. But the salary was made at the time of the merger with the Equitable Trust Co., when it became the large bank, at \$250,000, but it only ran for a part of the year 1930, which gives you that odd figure of \$218,750, and it ran commencing in January of 1931.

Mr. PECORA. Now, let us get back to the corporation called originally Chase Securities Corporation, and which you identified on yesterday as the security affiliate of the Chase National Bank. I believe you testified that that Chase Securities Corporation, which is now known as the "Chase Corporation," was organized in May of 1917.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What office did you hold in the Chase National Bank in May of 1917?

Mr. WIGGIN. President.

Mr. PECORA. I assume as president and the executive head of the bank you approved of the proposal to organize this security affiliate?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What advantages did you think would accrue to the bank from the organization of this security affiliate?

Mr. WIGGIN. We thought that a securities company could make money for the same stockholders; that they could share in underwritings, in wholesaling, that would not come to the bank, or could not come to the bank. We had had a transaction a little while before where the bank had an opportunity to enter into an underwriting, but they could not do it legally. So Mr. Hepburn and I took it and gave the bank the profit. They had no risk, and we thought in future it would be better for them to take the risks if they were going to get the profits.

Mr. PECORA. The risk was a risk inherent in the underwriting of securities?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And under the National Bank Act a national bank had no power to engage in that kind of business?

Mr. WIGGIN. A national bank must invest in evidence of debt. I suppose a national bank could underwrite bond issues.

Mr. PECORA. Well, a national bank, as you knew at that time, had no power or right under the law to engage in the securities business of the kind that the Chase Securities Corporation was designed to engage in.

Mr. WIGGIN. I think that is right, sir.

Mr. PECORA. So that the organization of the Chase Securities Corporation was made and conducted, among other reasons, for the purpose of enabling the use to be made of the funds of the bank through the medium of underwriting that it could not directly have made?

Mr. WIGGIN. No. They did not use the funds of the bank. It was agreed to, by all the stockholders, to set up this separate corporation.

Mr. PECORA. Now, the original capital of the Chase Securities Corporation was  $2\frac{1}{2}$  million dollars?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Which represented a dividend paid to the shareholders of the Chase National Bank, but which, instead of having been actually paid and distributed to the shareholders, went into the capital stock, or went to acquire the capital stock, of the Chase Securities Corporation?

Mr. WIGGIN. It went to the stockholders, who did that. It went for that purpose by agreement of the stockholders. The stockholders made the subscription to the Chase Securities Corporation stock in that way. The bank did not subscribe to the stock.

Mr. PECORA. I know that. The bank declared the dividend for the benefit of its shareholders, but the shareholders all agreed to use that dividend for the purchase of the initial capital stock of the Securities Corporation, which was  $2\frac{1}{2}$  million dollars?

Mr. WIGGIN. That is right, sir.

Mr. PECORA. Now, weren't the funds of the bank used in the years that followed to finance in whole or in part underwriting transactions of the Chase Securities Corporation?

Mr. WIGGIN. The Chase Bank loaned to the Chase Securities Corporation money from time to time; yes, sir.

Mr. PECORA. And in that way the funds of the bank were used for those securities purposes.

Mr. WIGGIN. Well, it was in fact loans made to the Securities Co. that was engaged in that business, just the same as were made to hundreds of other people who were in the same business, to whom we loaned money.

Mr. PECORA. And as was developed here on yesterday, at all times since the incorporation of the Chase Securities Corporation its stockholders have been identical with the stockholders of the bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, when this corporation called the "Chase Securities Corporation" was organized, did you have any knowledge of an opinion that had been rendered by Frederick W. Lehman, under date of November 6, 1911, Mr. Lehman at that time being the Solicitor General of the United States?

Mr. WIGGIN. I do not know whether I did nor not. This is 16 years ago, and I don't remember what opinion I had heard of at that time.

Mr. PECORA. Was there any discussion among those whose judgment led to the creation of the Chase Securities Corporation in 1917 concerning the legality of such a corporation and the conduct of its operations as a security affiliate of the Chase National Bank?

Mr. WIGGIN. I cannot remember any. It was no pioneer, for, as you know, there had been a number of securities companies organized as affiliates of banks. I cannot remember whether there was or was not any discussion of that matter.

Mr. PECORA. The question as to whether or not a national bank could take part in the creation of such a security affiliate, was an important one, wasn't it?

Mr. WIGGIN. Well, Mr. Pecora, you know the steps, and I don't want to bore you with going over the matter again, but the bank did not subscribe for any of the stock of the Security Corporation.

Mr. PECORA. We know that the bank did not. We also know that all of the bank's shareholders—

Mr. WIGGIN (interposing). The same shareholders.

Mr. PECORA (continuing). Became shareholders of the Chase Securities Corporation, and that that identity of interest has continued throughout from that time to this.

Mr. WIGGIN. That is right, sir.

Mr. PECORA. The question as to whether or not the Chase Securities Corporation could function as a securities affiliate of the Chase National Bank was an important one, wasn't it?

Mr. WIGGIN. Why, I think so. Yes, I think so.

Mr. PECORA. Do you recall whether there was any discussion concerning the legality of such a corporation and its operation as a security affiliate of the bank?

Mr. WIGGIN. I can only recall that the whole matter, and all the details connected with it, were worked out and handled by the lawyers.

Mr. PECORA. Who were the lawyers that handled that matter and the details?

Mr. WIGGIN. Rushmore, Bisbee & Stern.

Mr. PECORA. Might I ask Mr. Bisbee if he can throw any light on that matter?



Mr. BISBEE. As to whether the legality of such an arrangement was considered?

Mr. PECORA. Yes. And as to whether or not at that time there was also considered the opinion rendered by the Solicitor General of the United States to the Attorney General under date of November 6, 1911.

Mr. BISBEE. Of course, the question of validity was considered.

Mr. CONBOY. Mr. Pecora, would you kindly, for my information, let me see that opinion? Have you an extra copy of it?

Mr. PECORA. I have put that opinion in evidence at hearings held last February, and I have before me now a printed copy of the record of that hearing.

Mr. CONBOY. Then it may be there is a copy of it here. I want simply to keep myself in touch with the examination. The opinion of the Solicitor General rendered 22 years ago is a long time ago.

The CHAIRMAN. A copy of those hearings are available.

Mr. PECORA. Mr. Sparkman is going to get a copy for you.

Mr. CONBOY. I thank you.

Mr. BISBEE. Now shall I answer, Mr. Pecora?

Mr. PECORA. Yes, sir.

Mr. BISBEE. Of course, we considered the question of the validity of what we were doing. But I do not recall ever having heard of Mr. Lehman's opinion, not until many years afterward, and at that time, if memory serves me, someone brought the opinion to light from the archives of the Department of Justice, or the Solicitor General's office, and commented upon the fact that it was scarcely known publicly at the time it was rendered.

Mr. PECORA. The first public record I have been able to find of that opinion having been brought to light was on the occasion when Senator Carter Glass brought it to the attention of the Senate some time during the year 1932, I believe it was, and made it a part of the Congressional Record.

Mr. BISBEE. I think perhaps at that time public comment was made regarding the fact that it had not been generally made known at the time it was rendered. I do not recall the type of corporation or the type of affiliation to which Mr. Lehman referred, but if he referred to the arrangement between the stockholders of the bank and the stockholders of the Chase Securities Corporation and expressed an opinion adverse to its validity, I disagree with him.

Mr. PECORA. Have you seen the opinion of General Lehman?

Mr. BISBEE. I have not seen it. I remember reading references to it in the newspaper probably at the time that you mentioned it was entered in the committee record.

Mr. PECORA. I suggest you might find it at least entertaining reading, if not instructive.

Mr. BISBEE. I have no doubt. Did he deal with the situation of the trusts created for the benefit of the stockholders of the bank?

Mr. PECORA. He dealt with the situation specifically presented by the incorporation and operation at that time of the National City Co., which was the investment or security affiliate of the National City Bank.

Mr. BISBEE. That was my recollection. Our arrangement was wholly different.

Mr. PECORA. Now, there have been a number of increases in the capital structure of the Chase Securities Corporation since 1917, have there not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Can you enumerate what those increases have been, when they were made, and the amount of each increase?

Mr. WIGGIN. I will have to refer to the memorandum. [After consulting documents.] The first increase was January 21, 1920, increase of 50,000 shares, increasing the capital by \$7,250,000 and the surplus by \$250,000.

Mr. PECORA. I did not hear you.

Mr. WIGGIN. I beg your pardon. First increase was January 21, 1920, increasing the number of shares by 50,000, and making an increase in the capital of \$7,250,000 and in the surplus of \$250,000.

Senator TOWNSEND. What was the par value of the shares at that time?

Mr. WIGGIN. No par value.

Mr. PECORA. To whom were those additional 50,000 shares of capital stock sold in January 1920?

Mr. WIGGIN. To the existing stockholders.

Mr. PECORA. Of the Chase National Bank, which was the same as the stockholders of the Chase Securities Corporation?

Mr. WIGGIN. Existing shareholders of the Chase Securities Co., pro rata.

Mr. PECORA. Did any of the shareholders decline to subscribe for any of these additional 50,000 shares?

Mr. WIGGIN. I don't think so. I have nothing to show. It was all subscribed for. Undoubtedly some stock changed hands in the market between the day of authorization of capital and subscription of the capital, but that is affected by their sale of the rights, so called, and the right to sell at a premium. Of course, every share was taken up by somebody. If anybody did not want to subscribe they sold their rights.

Mr. PECORA. Sold their rights to subscribe for the new stock of the Chase Securities Corporation?

Mr. WIGGIN. And the bank. They were lumped together.

Mr. PECORA. So that it was not possible on the occasion of the issuance of these additional 50,000 shares for anyone to subscribe for shares of the Chase Securities Corporation alone and wholly apart from the Chase National Bank shares?

Mr. WIGGIN. No, sir.

Mr. PECORA. Now those 50,000 shares were sold for cash aggregating \$7,500,000, were they not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And of that sum \$250,000 was allocated to surplus and the balance to capital?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. When was the next increase in the capitalization of the Chase Securities Corporation?

Mr. WIGGIN. November 22, 1921.

Mr. PECORA. What was the amount of increase at that time?

Mr. WIGGIN. Fifty thousand shares. Increase in capital account \$250,000, increase in reserve account \$1,000,000.

Mr. PECORA. Increase in surplus, did you say?

Mr. WIGGIN. Reserve account.

Mr. PECORA. Of 1 million dollars?

Mr. WIGGIN. Yes, sir.

The CHAIRMAN. That was in November 1931?

Mr. WIGGIN. Twenty one.

Mr. PECORA. November 22, 1921. And those shares were likewise subscribed and issued to the existing shareholders of the bank and the securities corporation, were they not?

Mr. WIGGIN (after conferring with associates). Don't think I am technical. I just want to make sure of it. Will you read that question again, please?

The REPORTER (reading):

And those shares were likewise subscribed for and issued to the existing shareholders of the bank and the securities corporation, were they not?

Mr. WIGGIN. Yes, sir. The reason I hesitate was because that was the time of the merger of the Metropolitan Bank.

Mr. PECORA. Those shares were so issued and sold for an aggregate of \$1,250,000?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Why was \$1,000,000 of that stock allocated to reserve and \$250,000 to the capital account?

Mr. WIGGIN. I don't know.

Mr. PECORA. What advantages, if any, did you consider would accrue to the Chase Securities Corporation and to the Chase National Bank or either of them from this allocation?

Mr. WIGGIN. There was very little—I don't know what advantages would accrue. That is the answer. But the reserve account and surplus account are not dissimilar in their purpose.

Mr. PECORA. There must be some difference between them that prompted an allocation of the major part of the sum paid by the shareholders for these additional shares to reserve instead of to capital.

Mr. WIGGIN. I don't remember what the reason was.

Mr. PECORA. Don't you know now as a banker why that was done or what benefits would accrue to the corporation from that allocation?

Mr. WIGGIN. I don't know what the purpose was, Mr. Pecora.

Senator COUZENS. Would it not be, Mr. Wiggin, to enable you to charge off without affecting your capital, charge off losses without affecting your capital?

Mr. WIGGIN. No; surplus would do the same thing.

Senator COUZENS. Surplus is not observed as keenly as the capital is.

Mr. WIGGIN. That may be so. I mean it might have allowed markdowns, conservatism.

Mr. PECORA. Well now, Mr. Wiggin, this thing did not happen by itself. It represented a judgment or determination by the directing bodies of the bank and the securities corporation, did it not?

Mr. WIGGIN. Undoubtedly.

Mr. PECORA. What was the reason for that?

Mr. WIGGIN. I just don't know, but I will try and find out.



Mr. PECORA. You were the executive head, were you not?

Mr. WIGGIN. Yes, sir. But you are back 12 years, mind you.

Mr. PECORA. I am not referring to the event itself; I am referring to the reason why a certain policy was adopted with regard to the allocation of this money.

Mr. WIGGIN. I don't remember, that is all. I don't know. I will try and find out.

Senator COUZENS. From a practical banker's standpoint would you repeat the process again now?

Mr. WIGGIN. Why, I don't know. It would depend on what the purpose was at that time. No, I don't think there is anything gained by doing it that way.

Mr. PECORA. Is not one of the advantages accruing from that kind of policy that which was suggested in a question put to you by Senator Couzens?

Mr. WIGGIN. It makes it very possible to make markdowns without affecting the capital. The Senator is entirely correct.

Mr. PECORA. Would you say that that was a determining factor?

Mr. WIGGIN. That I would not say, because I don't know; I don't remember.

Senator COUZENS. Were you standing any substantial losses at that time that would suggest to you that it might be desirable to charge this off to surplus rather than to capital?

Mr. WIGGIN. I don't think so. There may have been at that time.

Senator COUZENS. That was in one of our minor depressions, was it not?

Mr. WIGGIN. Yes, November 1921.

Mr. PECORA. When was the next increase in the capital of the Chase Securities Corporation?

Mr. WIGGIN. April 12, 1926, increase of 200,000 shares, all paid in to capital account, a million dollars paid in to capital account.

The CHAIRMAN. It appears that in 1921 the company made a profit of over a million dollars. In nineteen twenty-two, three, and four they did not seem to have any net profit.

Mr. WIGGIN. You are speaking of the capital increases, Senator?

The CHAIRMAN. Yes.

Mr. WIGGIN. Yes; there was no capital increase between '21 and '26.

The CHAIRMAN. And there does not seem to have been any net profit.

Senator TOWNSEND. Oh, yes; there was a net profit.

Mr. PECORA. Oh, yes; there was.

The CHAIRMAN. Yes; I see now. There was a net profit in each of those years of over a million. According to the statement there was a net profit of over \$11,000,000 in 8 years.

Mr. WIGGIN. I haven't got that in front of me, Senator.

Mr. PECORA. That is, from June 1, 1917, to the end of the year 1925.

Mr. CONBOY. Yes.

Mr. PECORA. Is that right?

Mr. WIGGIN. I haven't that before me.

Mr. PECORA. Look at those figures.

Mr. CONBOY. That is correct.

Mr. WIGGIN. That is correct, yes.

Mr. PECORA. And out of those profits there were cash dividends paid in that same period of time aggregating \$4,150,000, were there not?

Mr. WIGGIN. Yes, sir.

Mr. CONBOY. The cash dividends began—I don't think they began in 1917. They did not begin in 1917. They began later.

Mr. PECORA. Yes. Cash dividends began in the year 1919?

Mr. CONBOY. Yes.

Mr. PECORA. Yes. All the cash dividends that were paid by the Chase Securities Corporation from the time of its creation in 1917 down to the end of the year 1925 aggregated \$4,150,000?

Mr. CONBOY. Right.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. The first dividend was declared in 1919?

Mr. CONBOY. Right. At least it was paid in that year. You say it was declared. It was probably declared and paid the same year.

Mr. PECORA. Yes; that is what I refer to. When was the next increase in the capital stock of the Chase Securities Corporation following this one of April 12, 1926?

Mr. WIGGIN. December 27, 1927, a hundred thousand shares, increase made in capital \$7,000,000, surplus \$150,000.

Mr. CONBOY. Have you finished your interrogation about the increase of capital in 1926 and the purposes for which it was increased?

Mr. PECORA. Well, if he wants to state any special purpose for which that increase was made I would be very glad to have him do so.

Mr. WIGGIN. I think we finished that. I might remark that it was at the time of the Mechanics & Metals merger.

Mr. PECORA. Let us go back to this increase on April 12, 1926. I will ask you, Mr. Wiggin, was there any special reason for that increase of capital stock at that time?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What was it?

Mr. WIGGIN. It was in connection with the merger with the Mechanics & Metals Bank.

Mr. PECORA. That is, at that time the Mechanics & Metals National Bank merged with the Chase National Bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And did the Mechanics & Metals National Bank at that time also have a securities affiliate known as the "Mechanics Securities Corporation?"

Mr. WIGGIN. It was organized at the time of the merger.

Mr. PECORA. And has it continued in operation since that?

Mr. WIGGIN. It has since been liquidated.

Mr. PECORA. When was it liquidated?

Mr. WIGGIN (after conferring with associates). Several years ago. I will get the date.

Mr. PECORA. Was the merger of the Chase National Bank and the Mechanics & Metals National Bank at that time effected on the basis of an exchange of stock?

Mr. WIGGIN. It was on a basis of exchange of stock; yes, sir.

Mr. PECORA. Do you remember the ratio of exchange?

Mr. WIGGIN. No, I don't know what that was.

Mr. PECORA. When was the next increase in the capital stock of the Chase Securities Corporation effected?

Mr. WIGGIN. December 27, 1927, a hundred thousand shares, increase in capital \$7,000,000, increase in surplus \$150,000.

Mr. PECORA. Were there any special circumstances that induced that increase?

Mr. WIGGIN. That was at the time of the merger with the Mutual Bank.

Mr. PECORA. Was that merger also effected by an exchange of shares?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Do you recall on what ratio the exchange was made?

Mr. WIGGIN. No. We can look all those things up for you.

Mr. PECORA. In connection with that merger was a corporation called the "Mutual Consolidation Corporation" created?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Has that since been liquidated?

Mr. WIGGIN. Yes, sir. You might prefer to have my authority answer these questions.

Mr. PECORA. I beg pardon?

Mr. WIGGIN. You might prefer to have my authority answer these questions instead of having me have to delay the answer every time.

Mr. PECORA. When was the next increase of the capital stock of the Chase Securities Corporation effected?

Mr. WIGGIN. July 2, 1928.

Mr. PECORA. What was the extent of the increase made then?

Mr. WIGGIN. A hundred thousand shares, all to capital account, \$10,000,000.

Mr. PECORA. Was there any special occasion for that increase, special reason for it?

Mr. WIGGIN. There was no merger at that time.

Mr. PECORA. What is that?

Mr. WIGGIN. There was no merger at that time. It was simply from the increased business.

Mr. PECORA. That is, to provide funds for the expansion of business?

Mr. WIGGIN. Right, sir. Perhaps not for expansion, but for business already in hand. To provide for handling more business.

Mr. PECORA. Now, was there another increase in the capital stock of the Chase Securities Corporation after that?

Mr. WIGGIN. Yes, sir. February 19, 1929, an increase of 10,000 shares; increase of the capital account of \$750,000. That was in connection with the Garfield Bank.

Mr. PECORA. The Garfield National Bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. That also was effected on the basis of an exchange of shares?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And in connection with that merger and this increase of the capital stock of the Chase Securities Corporation was there created a corporation called the "Garfield National Corporation"?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Has that since been liquidated?

Mr. WIGGIN. No, sir.



Mr. PECORA. Does it still operate?

Mr. WIGGIN. Still in existence. They are not doing any business.

Mr. PECORA. Is it a subsidiary that is wholly owned by the Chase Corporation?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What was the reason for the incorporation of that company, Mr. Wiggin?

Mr. WIGGIN. To hold certain assets that we did not want the bank to take.

Mr. PECORA. Which bank, the Chase National?

Mr. WIGGIN. The combined bank; yes, sir.

Mr. PECORA. After the merger. What kind of assets were they?

Mr. WIGGIN. I will have to find out. I do not know. This seems to be a little complicated. My authorities do not agree. I will get it for you.

The CHAIRMAN. This was not very far back, Mr. Wiggin. Have you any independent recollection about it?

Mr. WIGGIN. As to the assets that went into the Garfield company?

The CHAIRMAN. Yes.

Mr. WIGGIN. No.

The CHAIRMAN. And why has it continued in operation?

Mr. WIGGIN. Well, it is not doing anything. It is just holding those assets. I will find out just what they are.

Mr. PECORA. What kind of assets could they have been that justified or made necessary or prompted the creation of this Garfield National Corporation for the purpose of taking over those assets?

Mr. WIGGIN. Don't let me guess at it. Let me find out what it is.

The CHAIRMAN. They were what you call frozen assets, were they?

Mr. WIGGIN. No, sir. Will you defer that until we can look it up and see just what those assets are and what the purpose was?

Mr. BISBEE. The purpose was not what we said it was first. It was simply in connection with the machinery of getting out the stock of the security corporation in order that it might be available for exchange to the Garfield shareholders for the stock of the Garfield Bank.

Mr. PECORA. Now, Mr. Wiggin, from the facts that you have already given as a reason for the incorporation of the Garfield National Corporation to have that corporation take over certain assets which otherwise would have had to be taken over by the bank, will you tell the committee if some such thing was done in connection with other corporations created at the instance of the Chase Securities Corporation to serve that very purpose?

Mr. WIGGIN. I answered that question on what I thought was correct information, but the information has been corrected and they say my answer is not correct. So if you will just let us get that.

Mr. PECORA. But that may not have been the reason for which the Garfield National Corporation was created back in 1929. I am now asking you if there was any other occasion when a corporation was created at the instance of the Chase Securities Corporation designed among other things to take over assets that otherwise would have had to be taken over by the bank.

Mr. BISBEE. May I suggest something to the witness, Mr. Pecora?

Mr. PECORA. Surely.

(Mr. Wiggin and Mr. Bisbee conferred.)

Mr. WIGGIN. Yes, sir; I am advised that at the time of the Metropolitan merger, the merger of the Metropolitan Bank, a corporation was organized called the "Metpotan Co." It was organized for the reason—

Mr. PECORA. I am going to ask you about the Metpotan Corporation somewhat in detail later on, so I suggest that—

Mr. BISBEE. It fits directly in there.

Mr. CONBOY. This is the answer to that question.

Mr. BISBEE. It fits directly in there.

Mr. PECORA. All right; complete the answer.

Mr. WIGGIN. The Metropolitan Bank, having been a State bank, had mortgages that the Chase Bank did not want. It was simply to turn them over to this company, and this company was organized to take those mortgages.

Mr. PECORA. When was the next increase in the capitalization of the Chase Securities Corporation?

Mr. WIGGIN. July 1, 1929. The shares were split 5 shares for 1, and there was a capital increase on July 3, 1929, of 950,000 shares, of which \$38,000,000 was paid into capital account and \$10,879,000—I will omit the small figures—surplus account, \$1,834,000 to reserves.

Mr. PECORA. Why was that allocation made of the moneys that were received in connection with the issue of those additional shares on July 3, 1929?

Mr. WIGGIN (after conferring with associates). Shall I try to go ahead on that?

Mr. PECORA. Go ahead.

Mr. WIGGIN. Of the 950,000 shares on July 3, 1929, \$38,000,000 went to capital, \$10,879,000 went to surplus, \$1,834,000 went to reserves. The transaction was in connection with the purchase of the American Express Co., and the allocation to surplus and to reserves I cannot tell just why those figures were arrived at.

Mr. PECORA. Why was such an allocation made, irrespective of the figures?

Mr. WIGGIN. I confess I do not know.

Mr. PECORA. Mr. Wiggin, do you have to depend, for information concerning the adoption of policies by the bank and by the securities corporation, upon subordinates?

Mr. WIGGIN. I do not think this is a question of policy. This is a question of why they made the division this way.

Mr. PECORA. Does not that involve a question of policy? Does not the allocation of capital funds involve a question of policy, Mr. Wiggin?

Mr. WIGGIN. Perhaps so.

Mr. PECORA. Can you not tell us?

Mr. WIGGIN. All I am trying to do is get the facts for you.

Mr. PECORA. We have the fact that the allocation was made. Now, I want to know the reason, or the policy that prompted such an allocation.

Mr. WIGGIN. I am endeavoring to find out, and as soon as I do I will be glad to tell it.

Mr. PECORA. Do you have to find out what the policies of the bank were from subordinates, when those policies were adopted while you were the executive head of the bank?

Mr. WIGGIN. There must have been some reason for putting \$1,800,000 to this reserve account.

Mr. PECORA. And some reason for putting over \$10,000,000 to surplus?

Mr. WIGGIN. Yes.

Mr. PECORA. Can you not tell us those reasons?

Mr. WIGGIN. Not until I investigate and find out. Don't ask me to guess on these things, Mr. Pecora.

Mr. PECORA. It strikes me you ought to be in a better position to tell the reasons for the policy of the company and the bank, rather than subordinates.

Mr. WIGGIN. I want to get it right.

Mr. CONBOY. There is no question that that is a statement by Mr. Pecora.

Mr. PECORA. If the statement is challenged, the witness can challenge it, and we can find out who did determine the policies if the executive officers did not.

Mr. CONBOY. You are not asking that.

Mr. PECORA. Who determined the policies with regard to these allocations of capital funds to capital and to surplus and reserve?

Mr. WIGGIN. I was consulted.

Mr. PECORA. You expressed your assent to the doing of that thing?

Mr. WIGGIN. I presume so. It undoubtedly was voted by the directors.

Mr. PECORA. What prompted you to give your consent to it?

Mr. WIGGIN. I am looking it up, and will let you know as soon as I can possibly find out. There must have been some reason for it, and what it was I do not know at the moment.

Mr. PECORA. Why were the shares of the capital stock of the Chase Securities Corporation, on July 1, 1929, split 5 for 1?

Mr. WIGGIN. We felt that the more stockholders the bank had, the more benefit to the bank. It was a plan that had been adopted by some of our neighboring banks. It had apparently worked to their advantage. We took the same step, on the theory that the small stockholder would be of benefit to the bank.

Mr. PECORA. Would it be proper to paraphrase that by saying that it was done in order to obtain a wider distribution of the capital stock?

Mr. WIGGIN. We figured that the more stockholders there were the better for the bank. That would, of course, include a wider distribution.

The CHAIRMAN. Did not this split, 5 to 1, mean that every man who owned 1 share would not get 5?

Mr. WIGGIN. That is right, Senator.

The CHAIRMAN. How does that get it out to the public? You still have the same stockholders.

Mr. WIGGIN. Because the stock sells at one fifth of the former price, and there are a great many more people that buy a low-price stock than there are that buy a high-price stock.



Mr. PECORA. Was the par value of the stock reduced correspondingly at that time?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. From what to what?

Mr. WIGGIN. From \$100 a share to \$20 a share. That was the bank.

Mr. CONBOY. The Chase Securities had no par value.

Mr. WIGGIN. Chase Securities had no par value.

The CHAIRMAN. The bank stock was reduced to \$20 a share?

Mr. WIGGIN. From \$100 to \$20.

Mr. PECORA. In order to help me to determine whether or not to proceed with this examination, let me ask you how long it would take to get the information that would enable you to answer the questions I have put to you concerning the reason for the allocation of the moneys received on July 3, on the occasion of the issuance of that additional block of stock?

Mr. CONBOY. Shall we take that up now, for the purpose of giving you an answer to that?

Mr. PECORA. Yes; let me know if you can get it in a minute or two.

The CHAIRMAN. At that time, Mr. Wiggin, do you remember whether the bank stock was selling on the market at about \$1,000 a share?

Mr. WIGGIN. I will get that. What was the bank stock selling at?

Mr. CONBOY. At the time of the split?

Mr. PECORA. At the time of the split, in July, 1929.

The CHAIRMAN. And when the split was made, it became \$200 a share.

Mr. WIGGIN. I will get that figure for you.

Mr. CONBOY. We can give you those figures, Senator.

Mr. WIGGIN (after conferring with associates). Mr. Chairman, I can answer your question.

The CHAIRMAN. Yes. Let us have it.

Mr. WIGGIN. In July, 1929, at the time the par value of the stock was changed from \$100 to \$20, the stock was quoted on July 1 at \$980 a share. That is the old stock.

The CHAIRMAN. Yes. Then what did it become following that? Following this split, how was it quoted?

Mr. CONBOY. The split was from \$195 to \$200.

Mr. WIGGIN. On that date the new stock—or about that date—was quoted at \$195 bid, \$200 asked.

Mr. PECORA. Was this bank stock ever listed on any exchange?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. On what exchange?

Mr. WIGGIN. On the New York Stock Exchange.

Mr. PECORA. When was it so listed?

Mr. WIGGIN. I will have to get that. It was a long time ago. [After conferring with associates:] 1906.

Mr. PECORA. Was it thereafter taken off the list?

Mr. WIGGIN. Yes.

Mr. PECORA. When?

Mr. WIGGIN (after conferring with associates). January, 1928.

Mr. PECORA. Was it taken off the New York Stock Exchange trading list at the instance of the bank?

Mr. WIGGIN. Several of the banks—

Mr. PECORA. No; I mean in this particular case.

Mr. CONBOY. It involves other banking institutions that did the same thing at the same time.

Mr. PECORA. We are interested at this time only in what was done with respect to the Chase Bank.

Mr. CONBOY. But you might get an erroneous impression if you do not permit him to answer the question as he was going to answer it for you, and I am sure you do not want to get an erroneous impression.

Mr. PECORA. I would like to get answers to the questions, and not answers to something else.

Mr. CONBOY. You have been getting those right along.

Mr. PECORA. Go ahead, Mr. Wiggin. It will save time to let you answer in your own way.

Mr. WIGGIN. A number of banks decided to withdraw their stock from being listed on the New York Stock Exchange, for the reason that fluctuations in bank stock are sometimes harmful to the interests of the bank. Fluctuations down are sometimes harmful, and the stock exchange has to make a sale, if there is a bid and an asked, and no limit. There might be fluctuations on the stock exchange that would be very harmful to a bank's standing. Therefore it was taken off the stock exchange.

Mr. PECORA. You said that that reason controlled the decision of other banks. Did that reason also operate to control the decision of the Chase officers?

Mr. WIGGIN. I think so.

Mr. PECORA. Had there been active trading in the stock of the bank prior to January, 1928, on the New York Stock Exchange?

Mr. WIGGIN. No, sir.

Mr. PECORA. The trading was very, very slight, was it not?

Mr. WIGGIN. Very slight.

Mr. PECORA. Was it really felt that as a result of very slight tradings harmful fluctuations ensued?

Mr. WIGGIN. That was our feeling. It was not the amount of trading. It was the fluctuation in prices.

Mr. PECORA. Those fluctuations are largely determined by the volume of trading, are they not?

Mr. WIGGIN. No. An inactive stock can have very serious fluctuations, perhaps more so than an active stock.

Mr. PECORA. However, that was the reason that prompted the Chase National Bank in having its stock withdrawn from the trading list of the New York Stock Exchange.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And thereafter it was traded in on what is called the "over-the-counter" securities market.

Mr. WIGGIN. Yes.

Mr. PECORA. And the volume of trading from that time on increased extensively, did it not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What was about the daily volume of trading on the New York Stock Exchange up to the time it was withdrawn from its list?

Mr. WIGGIN. There were many, many days without any trading on the stock exchange.

Mr. PECORA. Would you say that a volume representing an average of 50 shares a day would be a fair average?

Mr. WIGGIN. I have no way of saying.

Mr. PECORA. Perhaps your associates could tell us that, from data that they seem to be consulting.

Mr. CONBOY. Do you want such information as we have with regard to the total number of shares that were traded in on the exchange for the last 4 months of 1927 and the first month of 1928?

Mr. PECORA. I think that would be helpful.

Mr. CONBOY. The information we have is that in September, 1927 there were 10 shares traded in.

Mr. PECORA. The whole month?

Mr. CONBOY. The whole month. In October, 1927 there were 2,360 shares, and the price ranged from a high of 602 to a low of 555. In November there were 1,090 shares, with a spread of 587 to 559. In December there were 1,900 shares, with a high of 580 and a low of 528; and in January, 1928 the total number was 1,900 with a high of 580 and a low of 548½. That is all the information we have on that.

Mr. PECORA. Can you follow that up by telling us, for the months of January, February, March, and April 1928, following the striking of this stock from the trading list of the exchange—

Mr. CONBOY. What the over-the-counter transactions were?

Mr. PECORA. Yes.

Mr. CONBOY. We will have to compile that for you. We have not any such figures.

Mr. WIGGIN. There is no record of that.

Mr. CONBOY. I doubt if you could get it, because the amount of trading over the counter is not reported; only the prices of the over-the-counter transactions. I doubt very much if there is any way of getting the over-the-counter transactions.

Mr. PECORA. Was it the aim or purpose of the Chase National Bank at that time to be in a position to control the price range of a day's trading?

Mr. WIGGIN. No, sir. We did always have it in mind that we wanted to be able to protect our stock if there was anything happening to it that was going to hurt the institution.

Mr. PECORA. How did you think you could protect it in the over-the-counter market, which protection was not available in the exchange market?

Mr. WIGGIN. Well, I do not know that we did think so.

Mr. PECORA. You just said you hoped to do that.

Mr. WIGGIN. Yes.

Mr. PECORA. How did you hope to do it?

Mr. WIGGIN. By buying when there were large fluctuations.

Mr. PECORA. What prevented the bank from doing that very thing while the stock was listed on the stock exchange?

Mr. WIGGIN. I do not think anything prevented its being done.



Mr. PECORA. Then why the striking from the list?

Mr. WIGGIN. Because we did not want the violent fluctuations that might occur.

Mr. PECORA. You said that those fluctuations could be affected by support given to the stock by the bank.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. That was what you hoped to do in the over-the-counter market.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. You could do the same thing in the exchange market.

Mr. WIGGIN. Yes; but we might——

Mr. PECORA. What was the reason then for the change?

Mr. WIGGIN. Because we did not want it listed on the New York Stock Exchange and have those fluctuations quoted in every paper all over the country.

Mr. PECORA. Are not the fluctuations and the ranges in the over-the-counter market published daily, too?

Mr. WIGGIN. Not very closely. They are published, but they are not right and they are not close.

The CHAIRMAN. How about the stock of the securities company at this time?

Mr. WIGGIN. The securities stock was never traded in separately. If a person bought a share of the bank, he bought a certificate that represented a share of the bank and a share of the securities company, at the same time.

The CHAIRMAN. The securities stock was not listed on the exchange separate from the bank stock?

Mr. WIGGIN. No, sir.

Mr. PECORA. That was because it could not be sold separate from the bank stock.

Mr. WIGGIN. Certainly.

Mr. PECORA. Do you recall whether there was a very substantial increase in the volume of daily transactions or tradings in the bank stock upon and after the date it was traded in in the over-the-counter market?

Mr. WIGGIN. It was always traded in over the counter. Perhaps you mean after it was taken off the exchange?

Mr. PECORA. After it was taken off the exchange.

Mr. WIGGIN. You understand that the trading over the counter went on at the same time it was listed on the stock exchange.

Mr. PECORA. Did you notice much of a variance in the daily quotations in the over-the-counter market at that time, as compared with those that prevailed on the exchange?

Mr. WIGGIN. No, sir.

Mr. PECORA. The range was about the same, then, in both the exchange market and the over-the-counter market, while the stock was traded in in both markets?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. That still would seem to remove the reason you have already given for striking the stock from the exchange list, would it not?

Mr. WIGGIN. No; I do not think so, Mr. Pecora. The big market on bank stocks is always over the counter. A number of them were

listed on the stock exchange. The transactions were not many, and any fluctuations excited wide comment.

Mr. PECORA. Can you give a reason why, Mr. Wiggin, when the stock was listed on the exchange and was also being traded in in the over-the-counter market, the volume of trading in the over-the-counter market greatly exceeded the volume of exchange trading?

Mr. WIGGIN. I do not know just how to answer that. The custom was that bank stocks were dealt in over the counter rather than on the exchange.

Mr. PECORA. Do you know any reason for that custom?

Mr. WIGGIN. The brokers could charge a larger commission on over-the-counter transactions than they could on stock-exchange transactions.

Mr. PECORA. I should think that would have encouraged trading on the exchange rather than in the over-the-counter market.

Mr. WIGGIN. Not with the brokers.

Mr. PECORA. But with the public. It was the public that was paying the bill.

Mr. WIGGIN. Very true.

Mr. PECORA. The purchaser of the stock or the seller of the stock would prefer to sell it in the market where the expense was less.

Mr. WIGGIN. Your theory is right, sir.

Mr. PECORA. But in practice it was wrong?

Mr. WIGGIN. In practice the over-the-counter market was the active market for bank stock.

Mr. CONBOY. You have an instance of that character in connection with United States Government bonds. They are listed on the stock exchange, but they are principally over-the-counter transactions.

Mr. WIGGIN. May I say one word more on that question of the stock-exchange fluctuations, Mr. Pecora?

Mr. PECORA. Go ahead.

Mr. WIGGIN. I am reminded that transactions on the stock exchange were so inactive that it would sometimes be weeks or months between one sale and the next sale, and the report would show the up or down from the last sale, and it might be a very serious difference because of the length of time.

Mr. PECORA. I though you said a few moments ago that the daily quotations in the over-the-counter market were about the same as the quotations in the stock exchange market.

Mr. WIGGIN. Yes, and that corroborated what I am trying to say. I have not made it clear to you. Suppose there was a sale of stock in July on the stock exchange, and suppose there was not another sale on the stock exchange until November. There might have been, in 4 months' time, a very serious change in the price, and yet the New York Stock Exchange quotation would show a sale in November, and off or up so much from the last previous sale, 4 months before.

Mr. PECORA. Is it possible to sell securities short in the over-the-counter market?

Mr. WIGGIN. I think so.

The CHAIRMAN. Did the bank itself deal in its own stock, buy and sell its own stock?

Mr. WIGGIN. I beg your pardon?

The CHAIRMAN. Did the bank deal in its own stock?

Mr. WIGGIN. No, sir.

The CHAIRMAN. It did not buy and did not sell its own stock?

Mr. WIGGIN. No, sir.

Mr. PECORA. When was the next increase in the capital stock of the Chase Securities Corporation effected?

Mr. WIGGIN. August 23, 1929, a 12½ percent stock dividend, 500,000 shares, increasing the capital \$2,500,000, and reducing the surplus \$2,500,000. It was a transfer from surplus to capital, and new shares issued.

Mr. PECORA. When was the next increase effected?

Mr. WIGGIN. August 24, 1929, 750,000 shares capital increase; \$3,750,000 into capital account and \$3,903,000 into surplus account.

Mr. PECORA. Why was that allocation made as between capital and surplus, of the proceeds from the sale of that additional stock?

Mr. WIGGIN (after conferring with associates). Mr. Pecora, they tell me that the reason that \$3,750,000 went into capital account was to make a round amount of capital, and that the remainder was put into surplus.

Mr. PECORA. Is that the only reason why the remainder was put into surplus, in order not to have anything but a round amount for the capital?

Mr. WIGGIN. That is the best information I can get.

Mr. PECORA. You said a moment or two ago, in answer to a question put to you by Chairman Fletcher, that the Chase National Bank did not buy or sell its own stock in the market. Do you recall that?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. As a matter of fact, did not the Chase Securities Corporation ever buy or sell the capital stock of the Chase National Bank in the market, either directly or through any subsidiary corporation?

Mr. WIGGIN. Through a subsidiary corporation; yes, sir.

Mr. PECORA. What was the name of that subsidiary corporation?

Mr. WIGGIN. The Metpotan Co.

Mr. PECORA. The Metpotan Co. Do you know, generally, the extent of the trading in the open market, in the shares of the Chase National Bank that was engaged in by the Metpotan Co.?

Mr. WIGGIN. I was familiar from time to time with what was going on.

Mr. PECORA. You have told us you were familiar, but the question asked you was whether you knew the volume of trading engaged in by the Metpotan Co. in the shares of the Chase National Bank.

Mr. WIGGIN. In a general way; yes, sir.

Mr. PECORA. What was it, in a general way?

Mr. WIGGIN. It varied from day to day tremendously.

Mr. PECORA. What was it over the period of years since the trading commenced?

Mr. WIGGIN. You mean over a long period? How many years do you want to cover, Mr. Pecora?

Mr. PECORA. From the time that the Metpotan Co. engaged in such operations up to the time that you retired from the position of executive head of the bank, in January of this year.



Mr. WIGGIN (after conferring with associates). We can get that for you.

The CHAIRMAN. When was the Metpotan Co. organized?

Mr. WIGGIN. In 1921.

Mr. PECORA. From the time that the capital stock of the bank was stricken from the Stock Exchange trading list in January, 1928, down to the end of 1932, you were the executive head of the Chase Bank, were you not?

Mr. WIGGIN. Yes.

Mr. PECORA. Within that period of time, will you give the committee an approximation, if you please, of the total volume of trading in the stock of Chase National Bank that was indulged in by the Metpotan Co.?

Mr. WIGGIN. I will get that for you exactly.

Mr. PECORA. Let me say, Mr. Wiggin, while we are waiting to get the information in answer to that last question, according to our research, based upon the records of the Metpotan Co., that company, from January 1, 1928, to December 31, 1932, traded in the open market in the shares of the Chase National Bank and all other banking institutions which were merged with the Chase, to a volume approximating almost nine hundred millions of dollars. Is that in accord with your recollection?

Mr. WIGGIN. I have no recollection. I am endeavoring to get the figures.

Mr. PECORA. Then we will have to wait to get the figures.

Mr. CONBOY. Mr. Pecora, have schedules been furnished you with reference to the tradings in Chase Bank stock by Metpotan, by us? Did you not request that we furnish you with figures with regard to those tradings, and did we not furnish you with them?

Mr. PECORA. Yes.

Mr. CONBOY. Your accountants unquestionably have what has been furnished to you in that connection.

Mr. PECORA. You furnished us with photostatic copies, principally, and I presume that you have the records from which the photostatic copies were made.

Mr. CONBOY. Very likely.

Mr. PECORA. We are not doing the testifying; and if you have the original records—

Mr. CONBOY. We can give you the same testimony that has already been furnished to you in these statements. If you want anything more we will have to compile further statements.

Mr. PECORA. No. The statements you gave us were given as photostatic copies, for the most part, of your own records.

Mr. CONBOY. Is that what you want—the information that is contained in the statements that have already been furnished you?

Mr. PECORA. I think such information is merged in what I want to know.

Mr. CONBOY. Do you want to introduce those in evidence, or do you want to have Mr. Wiggin—

Mr. PECORA. I want this put into the record through the medium of Mr. Wiggin's answers.

Mr. CONBOY. I submit, Mr. Wiggin certainly cannot tell you what the aggregate of tradings was in this long period of over 12 years.

Mr. PECORA. I have not asked for a period of 12 years.

Mr. CONBOY. I thought you asked for the period from the organization down to 1933.

Mr. PECORA. From January 1928 to the end of 1932.

Mr. CONBOY. All right. Then over a period of 4 or 5 years.

Mr. PECORA. Five years.

Mr. CONBOY. Then all we can tell you is what the accountant has prepared.

Mr. PECORA. Let him tell us. You have the original records, and we have only photostatic copies of those records.

Mr. CONBOY. Don't get angry with me.

Mr. PECORA. I am not angry; I am simply emphatic.

Mr. CONBOY. I am just endeavoring to ascertain what you want. Is that what you want?

Mr. PECORA. I want Mr. Wiggin to tell the committee what the volume was of trading in the stock of the Chase National Bank and of the other banks that were merged with the Chase National Bank, that was indulged in by the Metpotan Co. in the period commencing on the 1st of January, 1928, and terminating on December 31, 1932.

Mr. CONBOY. That will have to be added up for you, and will be given to you.

Mr. PECORA. Do you know what records should be consulted for that?

Mr. CONBOY. Mr. Hargreaves says he knows now exactly what you want in that connection, and he will get it for you.

Mr. PECORA. Let him add them up.

Mr. CONBOY. Yes.

Mr. PECORA. It will not take long.

Mr. CONBOY. Do you want that done right away?

Mr. PECORA. It should not take long to add up a few figures.

Mr. CONBOY. I don't know how long it will take, but it will be done.

Mr. BISBEE. Do you want the aggregate amount, or the number of shares?

Mr. PECORA. The aggregate amount and the number of dollars.

Mr. BISBEE. It will take 10 or 15 minutes, Mr. Pecora.

Mr. PECORA. I will proceed with another line of examination then.

The last increase in the capital of the Chase Securities Corporation that you told us about took place on August 24, 1929. When, after that, was there another increase?

Mr. WIGGIN. May 31, 1930, a capital increase of 2,150,000 shares, a capital account increase of \$22,000,000; surplus increase of \$4,853,000.

Mr. PECORA. Why was the allocation made in that way in that instance?

Mr. WIGGIN. I can only say, probably the same reason as before—to make the capital a round amount, and everything beyond went into surplus.

Mr. PECORA. Do you think that was the only reason, Mr. Wiggin?

Mr. WIGGIN. That is the only reason I can see.

Mr. PECORA. You do not even know that that was the reason, do you?

Mr. WIGGIN. I am not sure. I would have to go back to see why we did it at the time, and I have not got it in my head; but I think that is undoubtedly the reason.

Mr. PECORA. What was the occasion for that increase?

Mr. WIGGIN. That was the time of the Equitable Trust Co. merger.

Mr. PECORA. That was also a merger effected on an exchange-of-shares basis?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. At that time was a corporation called the Equitable Corporation caused to be organized by the Chase Securities Co.?

Mr. WIGGIN. It was in existence before that.

Mr. PECORA. What was that—a securities affiliate of the Equitable Trust Co.?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Was the Equitable Corporation taken over by the Chase Securities Corporation in connection with this merger in May 1930?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Is it still in existence?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Actively engaged in business?

Mr. WIGGIN. No, sir.

Mr. PECORA. When did it become inactive?

Mr. WIGGIN. It is in liquidation.

Mr. PECORA. It is in liquidation now?

Mr. WIGGIN. Yes, sir; but the question was, when it became inactive——

Mr. BISBEE. It never was active.

Mr. PECORA. In connection with this increase of capital stock, on the occasion of the merger of the Equitable Trust Co., was there also a merger with the Interstate Trust Co.?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. How was that effected?

Mr. WIGGIN (after conferring with associates). The Interstate merger took two steps. It merged with the Equitable Trust and the combined institution——

Mr. PECORA. Were the two steps designed to form part of the transaction whereby the Chase National Bank took over the Equitable Trust Co. and the Interstate Trust Co.?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. That is, both steps were designed to form parts of the whole transaction?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. In connection with that merger, did the Chase Securities Corporation also at the same time take over a corporation called the Interstate Corporation?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Is that active or inactive today?

Mr. WIGGIN. It is dissolved.

Mr. PECORA. When was it dissolved?

Mr. WIGGIN. Within the last few months.

Mr. PECORA. First, there was a merger of the Equitable Trust Co. with the Interstate Trust Co.; is that right?

Mr. WIGGIN. It was simultaneous, as I understand it.

Mr. PECORA. And at the same time there was a merger of the Equitable Trust Co. with which the Interstate Trust Co. had just been merged with the Chase National Bank?



Mr. WIGGIN. Yes, sir.

Mr. CONBOY. I think you had better consult about that, Mr. Wiggin, as to whether there was a merger of the Equitable Trust and the Interstate Trust before the merger with the Chase. My advices are that the merger was with the Chase on the part of the Equitable and the Interstate Trust all at one time and all one transaction.

Mr. PECORA. A 3-cornered merger?

Mr. CONBOY. Yes, sir. The Interstate was not taken in by Equitable and the Equitable merged with the Chase. The Interstate and the Equitable were merged with the Chase at the same time.

Mr. PECORA. And that was done on May 31, 1930?

Mr. CONBOY. Yes.

Mr. PECORA. On which occasion this increase in the capital stock of the Chase Securities Corporation took place?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. In connection with the issuance of that additional capital stock was there a block of 34,980.80 shares sold at auction?

Mr. WIGGIN. Of Chase Bank stock and Chase Securities combined; yes, sir.

Mr. PECORA. Sold by auction?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What was the occasion for that?

Mr. WIGGIN. It was to round out the capitalization and make an even number of shares. This 34 thousand as applied to the very large number of shares made an exceedingly odd amount, with odd fractions. Therefore, that round figure was determined upon, and this excess was sold at auction for the benefit of the bank.

Mr. PECORA. Were all those shares represented by the additional stock first offered to the existing shareholders of the banks that were merged?

Mr. WIGGIN (after consulting associates). The stockholders approved this method of making a round amount of capital, a round amount in the number of shares, and having the excess sold for the benefit of the bank.

The CHAIRMAN. What was the process of selling it off?

Mr. WIGGIN. It was sold at auction. As I say, there is a concern in New York that does a regular auctioning of securities. Those are advertised for several days before the sale. The sale was conducted in a room of this auction house.

The CHAIRMAN. Who bought in those shares?

Mr. WIGGIN. Metpotan bought them.

Mr. PECORA. Metpotan bought this entire block of 34,980.80 shares at this auction sale?

Mr. WIGGIN. Yes.

Mr. PECORA. Was there any other bidder?

Mr. WIGGIN. I think so. It was sold in small lots. I think the man is here who went to the sale and he can give you a record. I will have to get it from him.

Mr. PECORA. It was sold in small lots, but the entire block of 34,980.80 was disposed of on that one day in that auction room?

Mr. WIGGIN. Yes, sir. It was sold in thousand-share lots.

Mr. PECORA. At what price?

Mr. CONBOY. Apparently the prices varied.

Mr. PECORA. What was the total consideration for the entire amount?

Mr. CONBOY. They run from 169 up to 175, and the total amount that was realized—I assume it is the entire lot—is \$5,975,140. They were sold in thousand-share units.

Mr. PECORA. Does the Metpotan Co. still hold that block of shares?

Mr. WIGGIN. No, sir. They do not hold that stock.

Mr. PECORA. The Metpotan Co. is a subsidiary wholly owned by the Chase Securities Corporation, is it not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And always has been?

Mr. WIGGIN. Yes.

Mr. PECORA. Have there been any other increases in the capital stock of the Chase Securities Corporation since the one of May 31, 1930?

Mr. WIGGIN. No, sir.

Mr. PECORA. As result of the original capitalization of the Chase Securities Corporation and these increases that you have testified to, what is the total number of outstanding shares of capital stock of the Chase Securities Corporation at the present time?

Mr. WIGGIN. Seven million, four hundred thousand shares.

Mr. PECORA. All of no par value?

Mr. WIGGIN. No par value.

Mr. BISBEE. I think there is a par value now.

Mr. WIGGIN. A declared value of—

Mr. BISBEE. Not a declared value.

Mr. WIGGIN. A \$1 par value now; not a declared value, but a \$1 par value.

Mr. PECORA. When was that par value given to it?

Mr. WIGGIN. May 17, 1933.

Mr. PECORA. That was when the amendment was made, with the approval of the shareholders, at the special meeting held on May 16, 1933, in the charter and bylaws of the Chase Securities Corporation, and also when its name was changed to the Chase Corporation?

Mr. WIGGIN. Yes; that is right.

Mr. PECORA. By which it is known today?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. In the course of your testimony this morning you testified that the net profits earned by the Chase Securities Corporation from its creation on June 1, 1917, or about that date, to the end of the year 1925, aggregated \$11,170,819.29. Do you recall that testimony?

Mr. WIGGIN. No; but I do not question it.

Mr. PECORA. And out of that sum cash dividends were paid in that period of time aggregating \$4,150,000?

Mr. WIGGIN. That is right.

Mr. PECORA. I suggest that you have before you the record that corresponds to the one that I have.

Mr. WIGGIN. We have a photostat of it here.

Mr. PECORA. What were the net profits, if any, accruing to the Chase Securities Corporation for the year 1926?

Mr. WIGGIN. \$3,652,000.

Mr. PECORA. Can you give the exact amount?

Mr. WIGGIN. \$3,652,824.36.

Mr. PECORA. What cash dividends, if any, were paid to the shareholders?

Mr. WIGGIN. \$1,400,000.

Mr. PECORA. What were the net profits earned by the Chase Securities Corporation for the year 1927?

Mr. WIGGIN. \$3,475,708.39.

Mr. PECORA. What dividends, if any, were paid to the shareholders that year?

Mr. WIGGIN. \$1,600,000.

The CHAIRMAN. What percentage—5 percent or 6 percent?

Mr. WIGGIN. There was no par value of the stock, so it was so much per share.

The CHAIRMAN. How much per share?

Mr. CONBOY. Which year do you refer to, Mr. Chairman?

The CHAIRMAN. 1926 and 1927, both.

Mr. WIGGIN. Just a minute. We will have that for you.

The CHAIRMAN. I can calculate it, but I thought you had it there.

Mr. WIGGIN. There were 7,400,000 shares——

Mr. PECORA. No; not that many shares.

Mr. CONBOY. There were 200,000 shares at the end of 1925. On April 26, 100,000 were added, making 300,000. The dividend for that year was \$1,400,000. So if the whole dividend was paid for the capitalization at 400,000 shares it would be \$3.50 a share; correspondingly if it was less than 400,000.

Now, you want it for 1927?

Mr. PECORA. You have the figures for 1927.

Mr. CONBOY. The chairman's inquiry was what the rate was per share.

Mr. PECORA. Or the rate of dividend. I suggest, Mr. Conboy, you can get that out of your minute book.

Mr. CONBOY. It would be about \$4.40 per share, as indicated by this account.

Mr. PECORA. You probably could get the specific amount out of the minute book or the annual report.

Mr. CONBOY. Yes.

Mr. PECORA. What were the net profits, if any, accruing to the Chase Securities Corporation for the year 1928?

Mr. WIGGIN. \$4,652,498.56.

Mr. PECORA. And what was the amount of cash dividends paid to the shareholders of that corporation for that year?

Mr. WIGGIN. \$2,200,000.

Mr. PECORA. What were the net profits, if any, accruing to the Chase Securities Corporation for the year 1929?

Mr. WIGGIN. \$5,776,083.62.

Mr. PECORA. And what was the amount of the cash dividend paid to the shareholders of that company in that year?

Mr. WIGGIN. \$3,845,000.

Mr. PECORA. What were the net profits, if any, which accrued to the Chase Securities Corporation for the year 1930?

Mr. WIGGIN. The current earnings for that year were \$6,984,244.87.

Mr. PECORA. And what dividends were paid by the corporation during that year, 1930?



Mr. WIGGIN. Dividends were paid of \$6,862,500.

The CHAIRMAN. Do you make any distinction between current earnings and net profits?

Mr. WIGGIN. Yes, sir.

The CHAIRMAN. We have been talking heretofore about net profits.

Mr. WIGGIN. Yes. Sometimes the current earnings and the net profits are the same. In this year they were not the same.

The CHAIRMAN. What was the net profit?

Mr. WIGGIN. There was no net profit. There was a reduction of surplus account.

Mr. PECORA. Will you give the details of that, Mr. Wiggin?

Mr. WIGGIN. The details of which, Mr. Pecora? The reduction?

Mr. PECORA. Yes.

Mr. WIGGIN. The surplus account was reduced from 28,388,000 and odd dollars to \$13,594,000.

Mr. PECORA. How was that done? What were the mechanics of it?

Mr. WIGGIN. Do you mean, what was the vote? What was the authority that did it?

Mr. PECORA. No; the mechanics that did it; the operation.

Mr. WIGGIN. I will have to get that for you.

Mr. PECORA. You said there were no net profits for the year 1930 in answer to Senator Fletcher's question.

Mr. WIGGIN. The current earnings were offset by this reduction in surplus account.

Mr. PECORA. That is, a large sum was taken from the surplus account and that sum was large enough to offset what actually were losses that were incurred by the company during the year 1930?

Mr. WIGGIN. Well, they may not have been losses incurred. It may have been a reduction for reserve purposes. The losses may not have occurred, you understand.

Mr. PECORA. Were there any net profits actually earned by the company during the year 1930?

Mr. WIGGIN. Yes, sir. Mr. Hragreaves can do this better than I can, if you will let him do it.

Mr. CONBOY. He can do that, Mr. Pecora, as soon as he has finished this present job that he has for you over there.

Mr. PECORA. All right.

Mr. CONBOY. Because a net profit was reported that year.

Mr. PECORA. I know a net profit was reported, but now we want to make an analysis. Whether or not it was a net profit as that term is ordinarily understood.

Mr. CONBOY. That is precisely why we need Mr. Hargreaves, and we can give you that information as soon as he is available.

Mr. PECORA. Were there any net profits earned by the Chase Securities Corporation for the year 1931?

Mr. WIGGIN. The earnings were \$3,233,757.57. The dividend was \$1,850,000, and I understand that the excess over the dividends was applied on the inventory account.

Mr. PECORA. That is, toward the revaluation of assets?

Mr. WIGGIN. Yes.

Mr. PECORA. By that you mean marking them down to the market value?

Mr. WIGGIN. Marking them down; yes, sir.

Mr. PECORA. Was this figure of \$3,233,757.57, which you stated to be the net profits for the year 1931, actually an earned net profit?

Mr. WIGGIN. I have got to get the treasurer of the company to give me this. He is still working on that other matter, Mr. Pecora.

Mr. CONBOY. Do you want to know whether that was actually earned that year?

Mr. PECORA. Yes. Or if it was created in whole or in part by transferring funds to reserves, and so forth.

Mr. CONBOY. All right, Mr. Pecora. That is something that we will have to get for you.

Mr. PECORA. What were the net profits, if any, accruing to the Chase Securities Corporation for the year 1932?

Mr. WIGGIN. \$1,728,286.56, which were all used to reduce the surplus account.

Mr. PECORA. For the revaluation of assets in the portfolio?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Was that sum of \$1,728,000-odd actually an earned net profit?

Mr. CONBOY. Do you want the same information for 1932 that you asked for 1931?

Mr. PECORA. Yes; that I asked for the 2 preceding years. And that you cannot give us at this time, Mr. Wiggin?

Mr. WIGGIN. No.

Mr. PECORA. That will be looked after by Mr. Hargreaves?

Mr. WIGGIN. Yes.

The CHAIRMAN. I understand there was no dividend in 1932?

Mr. WIGGIN. No dividend whatsoever.

Mr. CONBOY. None in 1932.

Mr. PECORA. What were the net profits, if any, accruing to the corporation for the first 6 months of the current year?

Mr. WIGGIN. Of 1933?

Mr. PECORA. Yes, sir.

Mr. WIGGIN. Do you want me to answer on that? You see, I have not been an officer of the Chase Securities Corporation during all that period.

Mr. PECORA. You mean you do not know?

Mr. WIGGIN. I do not know. But I can get it in this same way, of course. But it is nothing that I know.

Mr. PECORA. We will get that, then, from one of the executive officers who has functioned during the present year.

Mr. Wiggin, I show you typewritten sheet entitled "The Chase Corporation, formerly Chase Securities Corporation. Capital, profits, reserves for losses, etc., and dividends paid June 1, 1917, to June 30, 1933." I believe a photostatic copy of this typewritten statement has been used by you in answering questions with relation to the capital, profits, and reserves and dividends; answers that you have been making in the last hour or two. Will you kindly look at it and tell us if the facts and figures shown thereon are correct to your best knowledge?

Mr. CONBOY. It is the same thing from which he has testified. Whether there are any inaccuracies in this I do not know. That is what Mr. Hargreaves is going to tell you at 2 o'clock.

Mr. PECORA. I am asking Mr. Wiggin if they are correct to your best knowledge?

Mr. WIGGIN. Yes.

Mr. PECORA. I offer that in evidence and ask that it be spread on the record.

The CHAIRMAN. Let it be admitted and placed in the record.

(Statement headed "The Chase Corporation, formerly Chase Securities Corporation. Capital, profits, reserves for losses, etc., and dividends paid June 1, 1917, to June 30, 1933", was received in evidence, marked "Committee Exhibit 8 of Oct. 18, 1933", and is printed in the record in full on page 2388.)





The Equitable Corporation	May 31, 1930	2,000,000.00	25,000,000.00	25,000,000.00	359,435.00	359,435.00	6,984,244.87	17,536,405.32	\$2,065,733.57	19,602,638.89	6,862,500.00
Interstate Corporation	do	115,019.20	359,435.00	359,435.00	1,493,785.00	1,493,785.00	3,283,757.57	37,078,919.34	408,393.67	51,987,313.01	1,850,000.00
	May 31, 1931	34,980.80	1,493,785.00	1,493,785.00			1,728,286.56	2,921,080.66	1,792,393.98	4,713,676.64	
	May 31, 1932						407,732.97	41,000,000.00		41,000,000.00	
	To										
	June 30, 1933	7,400,000.00	57,093,785.00	47,027,567.65	104,121,352.65	2,500,000.00	29,911,136.90	100,371,352.65	18,766,723.22	119,138,075.87	17,757,500.00
		7,400,000.00	55,343,785.00	47,027,567.65	115,371,352.65	2,500,000.00	41,081,956.19	101,371,352.65	18,766,723.22	120,338,075.87	21,907,500.00
Total											

Total capital, not including stock dividend..... \$115,371,352.65

Add net earnings to June 30, 1933..... 41,081,956.19

Total capital and net earnings..... 156,453,308.84

Of which there was paid in dividends..... \$21,907,500.00

Reserves set up..... 120,138,075.87

Capital and surplus, June 30, 1933..... 142,045,575.87

Capital and surplus, June 30, 1933..... 14,407,732.97

The CHAIRMAN. The committee will now take a recess until 2 o'clock. The subcommittee will meet in executive session.

(Thereupon, at 12:40 p.m. an adjournment was taken until 2 p.m. the same day, Wednesday, Oct. 18, 1933.)

#### AFTERNOON SESSION

(Upon the expiration of the noon recess the hearing was resumed at 2 p.m.)

The CHAIRMAN. The committee will come to order, please. I might state for the record that the committee held an executive session and heard the statements regarding the question propounded yesterday to Mr. Wiggin respecting rescue loans, and after hearing all the statements decided that no public interest would be served by pressing the question, and we decided for the present at least not to insist on the answer.

I do not mean to say that information was not furnished the committee. The committee heard all the statements and got all the facts that could be developed by the question, and they understand what the facts are, but they feel that it is not in the public interest and nothing would be gained by spreading those facts on the record.

#### TESTIMONY OF ALBERT H. WIGGIN—Resumed

Mr. PECORA. Mr. Wiggin, have you available to you now copy of the report made to the stockholders or shareholders of the Chase National Bank and of the Chase Securities Corporation for the year 1930?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Will you turn to page 18 of that report?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. On the last paragraph of that page the following statement is made, referring to the Chase Securities Corporation:

The net profits of the corporation from December 31, 1929, to December 31, 1930, including net profits of the Equitable Corporation and the Interstate Corporation, for the year were \$6,989,627.60.

With reference to that particular statement, Mr. Wiggin, will you tell this committee whether or not there actually was a net earned profit.

Mr. WIGGIN. There was a net earned profit out of that year's business of that money. The company also at that time reduced its surplus, because they wanted to get the securities already held in the account down to nearer market value, and you will notice if you follow through on that, Mr. Pecora, that on the next page it makes the statement that the surplus and undivided profits as of December 31, 1930, aggregated \$13,594,000.

Mr. PECORA. In the paragraph to which you have just referred and which is contained on page 19 of that report the complete statement is as follows:

The corporation owns and carries over 97 percent of the capital stock of the American Express Co. and all of the stock of the Harris Forbes Cos., and the reserves of the corporation are sufficient to mark down the other assets of the corporation to market prices as of the close of business December 31, 1930. The surplus and undivided profits as of December 31, 1930, aggregated \$13,594,328.25.



Now let me ask you, how much of the reserves were allocated for the purpose of marking down or revaluing the assets in the portfolio of the company as of December 31, 1930?

Mr. WIGGIN. It is impossible for me to answer that from any information I have in hand. I will do my best to get it.

Mr. PECORA. Well, from what account were those reserves taken?

Mr. CONBOY (after a pause). We are getting the information for you.

(Mr. Wiggin conferred with associates.)

Mr. PECORA. I would suggest, Mr. Wiggin, in order to enable you to answer these questions, to refer to the photostat reproduction which you have of the tabulated statement that was offered in evidence just before the recess today and which I understand has been checked up by the bank and found to be correct.

Mr. WIGGIN (after examining documents and conferring with associates). Mr. Pecora, the amount transferred from surplus was \$17,536,905, and the amount transferred from the profit account was \$2,065,733.

Mr. PECORA. So that a total of \$19,602,638 all told was transferred from the capital funds of the company in order to provide a reserve for losses?

Mr. WIGGIN. From the surplus and profits to the reserves and write-downs.

Mr. PECORA. Yes; and write-downs due to depreciation in the value of securities in the portfolio of the company at the end of the year?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Was there any statement about that embodied anywhere in the annual report to the shareholders for the year 1930?

Mr. WIGGIN. I think all that was embodied was the statement of what the surplus and profits were on page 19 that you just read.

Mr. PECORA. Yes. Now, there is nothing there which serves to inform a shareholder that, although the net profits for the year were \$6,984,244.87, sums aggregating nineteen million six hundred and odd thousand dollars were taken out of capital funds, such as surplus and undivided profits, and set up as a reserve to absorb losses or depreciation in the value of securities in the portfolio?

Mr. WIGGIN. Except by comparing this surplus and profit, as stated here, with the previous surplus and profit.

Senator COUZENS. In other words, you mean a stockholder would have to go back and get the previous year's report and compare it before he could discover that?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. The simpler way would have been to have given the stockholder the information, just as you have given it here, would it not?

Mr. WIGGIN. Perhaps so.

Mr. PECORA. Was there any reason why the shareholders were not enlightened in that way?

Mr. WIGGIN. Not that I know of.

Mr. PECORA. Such information would have given the shareholder a more complete and more comprehensive picture of the company's condition, would it not?

Mr. WIGGIN. Perhaps so.

Mr. PECORA. Is there any doubt about it in your mind?

Mr. WIGGIN. The figures are complete showing what there was.

Mr. PECORA. There are no figures at all showing what reserve was set up against losses and depreciation for the year 1930 in this annual report, are there?

Mr. WIGGIN. It does not show the change; it simply shows what there was, and expecting the stockholder to compare it with the previous figures.

Senator COUZENS. Let us assume that it was a new stockholder. He would not have the previous report. He would not have any way to compare it.

Mr. WIGGIN. Yes; but he would not be interested in this.

Mr. PECORA. Would it not be interesting to him to know the course of the company's business in the year 1930?

Mr. WIGGIN. Possibly. The figures are there.

Mr. PECORA. Well, you say all the figures are there. That is not literally the fact, is it?

Mr. WIGGIN. The shrinkage is not there, but if they compare with previous years it is.

Mr. PECORA. The shrinkage is nowhere stated in this annual report for 1930, is it?

Mr. WIGGIN. I do not think it is.

Mr. PECORA. And the amount of reserves set up to provide for that shrinkage is nowhere stated in the annual report for the year 1930, is it?

Mr. WIGGIN. I do not think so.

Mr. PECORA. Who prepared this report?

Mr. WIGGIN. It was prepared by the Chase Securities for me on the figures.

Senator COUZENS. Do I understand, Mr. Wiggin, that these net profits of \$6,984,000 plus were before or after you charged off these reserves?

Mr. WIGGIN. Before.

Senator COUZENS. So in effect there was a substantial loss instead of a profit, if you took into account your shrinkages?

Mr. WIGGIN. Yes, Senator; except that the loss was not out of the current year of business.

Senator COUZENS. No; I understand that.

Mr. WIGGIN. Yes; and the losses, you understand, had not been sustained. It was just a market value that had changed. They had not taken the losses.

Senator COUZENS. So there were no losses at all, or just contemplated losses?

Mr. WIGGIN. I do not know whether there had been any losses taken or not. I will have to find that out.

Senator COUZENS. I think that is important, because I can comprehend the difference between a contemplated loss and actual loss.

Mr. WIGGIN. Senator, I can answer that question. Any actual loss would be taken out before the earnings showed.

Senator COUZENS. So that whatever actual loss you had was taken out before you reported the six million-plus earnings?

Mr. WIGGIN. Correct. So that the only loss covered by this was a possible loss, not a realized loss.

Mr. PECORA. Well, it was the loss that would have been sustained had there been liquidation at the end of that year.

Mr. WIGGIN. At that time, yes, sir.

Mr. PECORA. Have you before you a copy of the report to the shareholders of the Chase National Bank and of the Chase Securities Corporation made by you as chairman of the governing board, for the year 1931?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Will you turn to page 15 of that report?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. There is included on that page of the report the following statement:

The corporation is a holding company for various affiliates and has also a general portfolio of its own. It owns and carries at cost on the annexed balance sheet approximately 98 percent of the stock of the American Express Co. and all of the stock, except directors' shares, of the new Equitable Trust Co., formed at the time of the merger of the Chase National Bank and The Equitable Trust Co. of New York, to perpetuate the name and to conduct a general trust business. It also owns all of the stock of Chase Harris Forbes Cos., which it carries on the balance sheet at cost less the amount of all known losses and portfolio market declines of that company since the date of acquisition in August 1930.

As to the other assets of the corporation which comprise its general portfolio, it has been thought advisable, in spite of the abnormally low prices which prevail in the security markets, to mark them down to market prices as of December 31, 1931, and to write off all losses, including all obligations under syndicate operations. To provide for this a proposal to reduce the stated capital of the corporation is submitted to the stockholders. Upon the approval of the stockholders the capital of the corporation, as shown in the annexed balance sheet, will be \$40,000,000 and the surplus and profits \$18,000,000, with reserves for taxes and contingencies of \$2,479,748.74.

Income of the corporation in excess of \$1,850,000 dividend paid has been applied toward the reduction of cost of inventory.

Now, as a matter of fact, Mr. Wiggin, did not the Chase Securities Corporation take out of its capital funds and undivided profits sums aggregating \$51,987,313.01 as a reserve against losses and depreciation of the securities in its portfolio as of the close of the year 1931?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. That amount of fifty-one million nine hundred thousand and odd dollars was made up by the allocation of \$37,078,919.34 from the capital surplus and \$14,908,393.67 from the undivided-profits account.

Mr. WIGGIN. Correct.

Mr. PECORA. Was there any statement embodied anywhere in the report for the year 1931, which you caused to be issued to the shareholders, of that fact?

Mr. CONBOY. You mean in addition to what you have read from the report for 1931?

Mr. PECORA. You can consider it that way.

Mr. WIGGIN. I do not know whether there was any other notice sent out. They are unable to find the notice of the stockholders' meeting, that might have said something on the subject, but this statement, of course, is like the other one we have discussed. It shows just what we had left after the change.



Mr. PECORA. Is there any reason why that detailed information was not embodied in the annual report to the shareholders for the year 1931?

Mr. WIGGIN. Not that I know of.

Mr. PECORA. In order to give such shareholders a complete picture of the operations and financial condition of the corporation, such a statement would have been necessary, would it not?

Mr. WIGGIN. No; I do not think so. This showed just what they had left. There was nothing there except what is plain reading. They had so much left.

Mr. PECORA. How could a shareholder, from the reading of that report, learn that during the year, or at the end of the year, reserves from capital funds amounting to nearly \$52,000,000 had been set up as reserves for losses and depreciation of securities in the portfolio?

Mr. WIGGIN. By comparison.

Mr. PECORA. What is that?

Mr. WIGGIN. By comparison.

Mr. PECORA. How would you have made the comparison?

Mr. WIGGIN. Taken the last year's figures and compared them.

Mr. PECORA. Suppose you take the report for the last year and see if you can arrive at it by a comparison with the report for the year 1931. Just sit down and try to do it yourself.

Mr. CONBOY. You want him to remain seated?

Mr. PECORA. I suggest that Mr. Wiggin himself do that without the aid of any expert accountant, because I take it the average shareholder is not calling in an expert accountant to enable him to analyze the report.

Mr. WIGGIN. I am trying to save some time, that is all. The statement of December 31, 1930, shows the capital surplus and profits account at \$108,594,000.

Mr. PECORA. What page are you reading from?

Mr. WIGGIN. In the back part of the book, Mr. Pecora, next to the last.

Mr. PECORA. It shows capital surplus and profits of \$108,594,000; yes.

Mr. WIGGIN. And the statement of the following year, December 31, 1931, shows capital surplus and profits account of \$58,000,000.

Mr. PECORA. What is the difference?

Mr. WIGGIN. \$50,594,000.

Mr. PECORA. The actual reserve was fifty-one million nine hundred and eighty-seven thousand and odd dollars, was it not—the reserve for the year 1931?

Mr. WIGGIN. Yes, sir. Probably the balance was out of earnings.

Mr. PECORA. What is that?

Mr. WIGGIN. I assume the balance came out of the earnings.

Mr. PECORA. Are the earnings set forth in the 1931 report?

Mr. WIGGIN. I will have to look. [After examining document:] All it says on that is that the income in excess of the \$1,850,000 dividend has been applied to reduction of cost of inventory. It does not say how much.

Mr. PECORA. Which would not have enabled any shareholder, by a comparison or analysis of the two reports for the years 1930 and 1931, respectively, to have ascertained exactly what sum was set up

as reserves against losses and depreciation at the end of the year 1931, would it?

Mr. WIGGIN. No; not easily. They would have to get the two figures together.

Mr. PECORA. So that even a certified public accountant, by an analysis of the two reports, could not have reached that figure of fifty-one million nine hundred and eighty-seven thousand and odd dollars?

Mr. WIGGIN. There is no other way to reach it. If you have a difference, the other must have come out of earnings, Mr. Pecora. There was not any other place it could come from.

Mr. PECORA. Now, refer again to your photostatic copy of the tabulation marked in evidence just before recess today as committee exhibit no. 8.

Mr. CONBOY. Just in that connection, you have the same heading there, that was changed yesterday—"from capital", when what it really means is from surplus, as distinguished from capital as capital.

Mr. PECORA. Yes; capital funds.

Mr. CONBOY. It really means surplus.

Mr. PECORA. Yes; but surplus is part of the capital funds. We will consider the word "capital" as referring to surplus.

Mr. CONBOY. It might be misleading if it were not so understood.

Mr. PECORA. That is why we put it on the record now.

According to this tabulation shown on exhibit 8, were any reserves provided out of capital funds, such as surplus and undivided profits, at the end of the year 1932 as a reserve for losses or depreciation in value of securities in the portfolio?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What amount?

Mr. WIGGIN. \$4,713,676 total; \$2,921,000 from surplus and \$1,792,000 from profit account.

Mr. PECORA. Is that aggregate reserve made up by the allocation of \$2,921,080.66 from the surplus, and \$1,792,595.98 from the undivided profits?

Mr. WIGGIN. I so understand.

Mr. PECORA. Was there any statement of that embodied in the annual report issued to the shareholders of the bank and the Chase Securities Corporation for the year 1932?

Mr. WIGGIN. Shall I read from the report the only part I find that connects with that?

The CHAIRMAN. Yes. Just state what the report says.

Mr. PECORA. State the page on which it appears.

Mr. WIGGIN. Page 15, in the middle of the page [reading]:

Income of the corporation, after expenses, has been applied toward the reduction of the corporation's portfolio value or added to reserves.

Mr. PECORA. That is the only statement you can point to in the report for the year 1932 that would serve to give the shareholder the information concerning the amount of the reserve set up against losses or depreciation?

Mr. WIGGIN. The last paragraph in that section, over on the next page, reads as follows [reading]:

The suggested par value of \$5 per share for the authorized 7,400,000 shares of the corporation's stock will constitute the capital of the corporation,

\$37,000,000, instead of the present capital of \$40,000,000. The difference of \$3,000,000 will be added to the corporation's reserves. Upon the approval of the stockholders of this proposal, the capital of the corporation as shown on the annexed balance sheet will be \$37,000,000 and the surplus and profits \$18,000,000 with reserves for taxes and contingencies of \$3,874,890.41.

Mr. PECORA. Do you regard that as giving the shareholder complete information with regard to those reserves?

Mr. WIGGIN. I think so.

Mr. PECORA. You say you think so?

Mr. WIGGIN. I think so. I think it might have been more clearly expressed, but I think it is all there.

Mr. PECORA. Would the shareholder, in order to gather all this information, have to make comparisons with the report for the preceding year?

Mr. WIGGIN. I do not think so. I think it is all there.

Mr. PECORA. Where is there, in anything you have read, or anything else you can refer us to in that annual report of 1932, anything which tells the shareholder that total reserves of four million seven hundred thirteen thousand and odd dollars have been set up as a reserve out of capital funds, consisting of surplus and undivided profits, as a reserve against losses or depreciation?

Mr. WIGGIN. It does not tell him that amount has been set up, but it shows him what is left.

Mr. PECORA. Will you be good enough, Mr. Wiggin, to turn to the printed copy of the annual report to the shareholders for the year 1932, the third from the last page thereof, entitled "Statement of the condition of Chase Securities Corporation, including the Equitable Corporation of New York and Interstate Corporation, at close of business December 31, 1932." Do you have that?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Do you find an item under the caption of "Resources", entitled "Securities and investments, \$91,340,996.56"?

Mr. CONBOY. You have not read the entire caption, have you?

Mr. PECORA. It is small print. I will read the rest of the caption. After the statement "at the close of business December 31, 1932," appears the following:

Giving effect to change of shares from no par value to \$5 par value, to be voted on at stockholders' meeting January 10, 1933.

In other words, it seems to me, now that you have called my attention to that part of the caption, that in the annual report for 1932 they were presenting figures based upon something that was expected the stockholders would do some time in January 1933, which I think might be regarded as not forming part of the report of the operations for the year 1932.

Mr. CONBOY. That is not a question, is it?

Mr. PECORA. It is an observation that the witness may reply to if he differs with it.

Mr. CONBOY. You do not want us to reply to your observations, do you? You want us to answer your questions.

Mr. PECORA. I hope to get the answers. I will not press the question last addressed to the witness, but I will ask him this—

Mr. WIGGIN. What is the last question?

Mr. PECORA. I am going to withdraw it.



Mr. WIGGIN. Is there any question that I have not answered?

Mr. PECORA. Yes; the one about the \$91,000,000 item; but ignore that for the time being, and let me ask you this—

Mr. WIGGIN. I did not understand that it was a question.

Mr. PECORA. Let me ask you this question now. On this page of the printed report to the shareholders for the year 1932 that I have already called attention to, the inscription that forms the last part of the caption reads as follows:

Giving effect to change of shares from no par value to \$5 par value to be voted on at stockholders' meeting January 10, 1933.

Now, let me ask you this: At the time this report was issued by you to the shareholders it purported to relate the operations of the company for the calendar year 1932, did it not?

Mr. WIGGIN. It was a report of the year's business; yes, sir.

Mr. PECORA. For the calendar year ending on December 31, 1932?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Why was there included in the report for that year this statement of the condition of Chase Securities Corporation at the close of business December 31, 1932, which gave effect to changes of shares from no par value to \$5 par value, that had not yet been made?

Mr. WIGGIN. It seems to me to be the most direct picture they could have given, to give those figures. This report was not given out until the stockholders' meeting and with that plan already in preparation; and it seems to me it is a much more correct picture than anything else that could be given.

Mr. PECORA. Were you anticipating that the stockholders would, on January 10, 1933, take certain action?

Mr. WIGGIN. It was presented January 10.

Mr. PECORA. This report was presented to the meeting of the shareholders on January 10, 1933?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Hence, it was already set up, printed, distributed—

Mr. WIGGIN. Not distributed; no, sir.

Mr. PECORA. It was already set up and printed in the form in which it now appears?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. When you set up this statement of the condition of Chase Securities Corporation, in your annual report for the year 1932, in the form in which it appears, did you know when you prepared the report or caused it to be prepared, what action the stockholders were going to take with regard to establishing the par value of the shares at \$5?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. How did you know it?

Mr. WIGGIN. The proxies were already received for the meeting.

Mr. BISBEE. It was the same day.

Mr. WIGGIN. I gave this out the day of the meeting.

Mr. PECORA. What was the purpose of this establishment of a par value of \$5 for capital shares which previously had no par value?

Mr. WIGGIN. May I read a paragraph from the report that I think will answer that question?

The CHAIRMAN. Yes. Read it, Mr. Wiggin.

Mr. WIGGIN (reading) :

In order that the stockholders of Chase National Bank and Chase Securities Corporation may not be unduly handicapped in comparison with other similar institutions in the payment of State and Federal stock-transfer taxes, it is proposed to the stockholders that shares of the stock of the corporation of no par value be changed into shares with a par value of \$5 per share, the even dollar amount nearest to the present per share capital of the corporation.

This will at present, under existing laws, reduce State and Federal stock transfer taxes in the State of New York from \$9.80 per hundred shares to \$2.20 per hundred shares for stock of the Chase National Bank and Chase Securities Corporation.

Mr. PECORA. You read that from page 15 of this annual report for the year 1932, did you not?

Mr. WIGGIN. Yes.

Mr. PECORA. Was that the sole purpose of effecting this change in the capital structure?

Mr. WIGGIN. So far as I know.

Mr. PECORA. By any chance was it done in order to reduce the capital of the corporation and, to the extent of such reduction, provide additional funds for surplus that could be drawn upon as reserve for losses?

Mr. WIGGIN. I do not think so.

Mr. PECORA. That could have followed as a consequence, could it not?

Mr. WIGGIN. It was not necessary.

Mr. PECORA. But it could have followed as a consequence of the establishment of a par value of \$5 for the shares?

Mr. WIGGIN. You mean, it increased the surplus?

Mr. PECORA. Yes.

Mr. WIGGIN. It did certainly increase the surplus.

Mr. PECORA. And from the increased surplus additional funds were available as a reserve for losses and depreciation of securities?

Mr. WIGGIN. Yes. But this action was not necessary to do that.

Mr. PECORA. Was it not done partly to provide additional surplus funds?

Mr. WIGGIN. I do not think so; no.

Mr. PECORA. But that was the effect? Whether it was the intent or not, that was an effect?

Mr. WIGGIN. They could reduce the capital without a par value, probably.

Mr. PECORA. I say, one of the effects, or an effect of what was done, was to have brought about a change in the capital structure that provided additional funds for a surplus from which reserves could be taken as a set-off against loss and depreciation?

Mr. WIGGIN. I agree with you that it reduced capital and increased surplus.

Mr. PECORA. During the following year, or, rather, the first 6 months of the ensuing year, which would take us to June 30 of this year, were not reserves aggregating \$41,000,000 provided out of capital funds, such as surplus and undivided profits, as a set-off against losses and depreciation?

Mr. WIGGIN. You appreciate that you are now beyond my term as an officer in Chase Securities?

Mr. PECORA. Are you still a director of the bank?

Mr. WIGGIN. No, sir.

Mr. PECORA. You are still carried on its pay roll at the rate of \$100,000 a year to give counsel to the bank, are you not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Do you know nothing at all about the circumstances under which this reserve of \$41,000,000 was set up out of capital funds on June 30 of this year?

Mr. WIGGIN. I have not been consulted on it at all, sir. I can only state from looking at some figures that somebody furnishes me.

The CHAIRMAN. Do you know whether the records show that?

Mr. WIGGIN. I assume so. The record is right here in front of us.

Mr. PECORA. This figure is taken from exhibit 8, Mr. Chairman, which is in evidence, and it was conceded before it was put in evidence that it had been checked up by the authorities of the bank and found to be correct.

Mr. CONBOY. I do not think there is any dispute about it, Mr. Pecora.

The CHAIRMAN. Let him say so, then.

Mr. BISBEE. It speaks for itself.

Senator COUZENS. I object to these counsel interrupting and making speeches and injecting things into the record when we are examining the witness. I cannot follow the testimony with that going on.

Mr. CONBOY. I trust that I am not an offender in that regard.

Mr. BISBEE. I was endeavoring to be helpful.

The CHAIRMAN. Certainly this question the witness can answer without any assistance. Was that change actually made, changing the par value of the stock?

Mr. WIGGIN. Yes, sir.

Mr. ALDRICH. Don't you think, if you are going to examine on something that happened after Mr. Wiggin was an officer, you had better examine me?

Mr. PECORA. Well, while Mr. Wiggin is on the stand, in view of the fact that he is still carried on the pay roll of the bank to render service to it, at a very substantial annual salary, I do not see any objection to finding out from this witness just what he knows, if anything, about these things.

Mr. ALDRICH. He has already stated that he does not know anything about them.

Mr. PECORA. Let me ask you, Mr. Wiggin, if it is not a fact, to your knowledge, that the reason for setting up reserves aggregating \$41,000,000 on June 30 of this year against losses and depreciation in security value was because of transactions of the Chase Securities Corporation that had been consummated prior to the time that you withdrew from active participation in its affairs?

Mr. WIGGIN. I think so. I think that that mark-down was from previous investments.

Mr. PECORA. The setting up of the reserve at the end of the year 1932, of four million seven hundred thirteen thousand and odd dollars was done while you were the executive head?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Were securities values as of the end of December 1932, generally speaking, higher or lower than the market values of those securities as of June 30, 1933?



Mr. WIGGIN. I do not know. It is not a question of what general securities were; it is what particular securities that this company had.

Mr. PECORA. With regard to the securities now held in the portfolio of the Chase Securities Co. at the end of the year 1932?

Mr. WIGGIN. I do not know. I would have to look it up.

Mr. PECORA. What would you say to that on the basis of your general knowledge of the general trend of market values of securities between December 31, 1932 and June 30, 1933?

Mr. WIGGIN. I should suppose they were lower in July than they were in December, but I do not know.

Mr. PECORA. Lower at the end of June last than they were at the end of December last?

Mr. WIGGIN. I would have to look and see just what securities they had. It does not make any difference what other securities were; it is what these securities were.

Mr. PECORA. Let us go back to that page of the annual report for the year 1932 entitled "Statement of the Condition of Chase Securities Co. at close of business December 31, 1932", and let me again draw your attention to the item appearing on that page under the caption of "Resources."

Securities and investments, \$91,340,996.56.

Have you got that before you?

Mr. WIGGIN. Yes.

Mr. PECORA. To what did that item refer?

Mr. WIGGIN. The various securities carried by the company.

Mr. PECORA. That is, it represented an aggregate market value as of that date?

Mr. WIGGIN. No, sir; it represented the inventory value of that date.

Mr. PECORA. What difference was there between inventory value and market value?

Mr. WIGGIN. I do not know. I do not know that there was any market for a great many of the securities.

Mr. PECORA. From what bases were inventory values determined in making up the inventory statement for the end of that year of the securities in the portfolio if it was not made up entirely from market value?

Mr. WIGGIN. On securities that have a market value, market value is the fair value to take. On securities that have no market value, the fair valuation is the fair value to take.

Mr. PECORA. The fair valuation in whose judgment?

Mr. WIGGIN. I do not know who is the actual referee of those things.

Mr. PECORA. Who did actually act in preparing the inventory statement of the corporation at the end of last year?

Mr. WIGGIN. The officers of the company.

Mr. PECORA. Was your own judgment included?

Mr. WIGGIN. I suppose so; I don't remember, but I assume I was consulted.

Mr. PECORA. You mean that you do not recollect whether you took part in determining the inventory value of securities in the

portfolio of your company as of December 31, 1932, where those securities consisted of inactive securities?

Mr. WIGGIN. I do not recall, but I presume I was consulted on the valuation of the American Express stock, which was a big item.

Mr. PECORA. How many shares of capital stock of the American Express Co. were included in this item of ninety-one million three hundred and forty-odd thousand dollars.

Mr. WIGGIN. 176,996 shares.

Mr. PECORA. And what value was ascribed to them as of December 31, 1932, for purposes of this annual report?

Mr. WIGGIN. \$40,031,677.

Mr. PECORA. And 85 cents?

Mr. WIGGIN. And 85 cents.

Senator COUZENS. Was that based on the market value?

Mr. WIGGIN. There was not any market value. We owned them all.

Senator COUZENS. That is what I would like to have you describe.

Mr. PECORA. I was coming to that.

Senator COUZENS. I would like to have you describe what you mean by fair value. In answer to a question of Mr. Pecora you said that in case of a market value, you took market value, and in case of no market value, you took fair value.

Mr. WIGGIN. This was taken at cost which we thought was the fair price.

Senator COUZENS. What made you think that cost was the fair price at that time? Was it based on a trial balance or earning capacity, or what?

Mr. WIGGIN. Based on the balance sheet and earning capacity. It is a company that has earned its dividend right through this whole depression.

Senator COUZENS. While we are on this question, if Mr. Pecora does not mind, I would like to have a better definition than just that as to how you arrive at fair value. Take, for instance, the clearing-house report of June 29, 1932. I see that there are \$20,772,740 worth of Fox Film debentures. Did they have a market value?

Mr. WIGGIN. I do not think so.

Senator COUZENS. How would you arrive at a fair value of those?

Mr. WIGGIN. They are undoubtedly good bonds, and you would fix it on what you think is a fair price on a bond that will pay at that particular maturity, but a bond without any market value.

Senator COUZENS. Also \$6,000,000 of Fox Film loans. How would you fix the value of those?

Mr. WIGGIN. In the same way.

Senator COUZENS. They were good, were they?

Mr. WIGGIN. They were good.

Senator COUZENS. And you also had \$10,700,000 of General Theater Equipment loans. Were they good?

Mr. WIGGIN. They had a market value, didn't they?

Senator COUZENS. They did have a market value.

Mr. ALDRICH. May I answer that question; because that affects the bank today? Those Fox loans and General Theatres loans have all been written off now to a point where the securities, which we now hold at market, are a greater value than the amount that we carry on loans on our books.

Senator COUZENS. I was reading from a report made prior to your going into it.

Mr. ALDRICH. That affects our position today; but I would like to state right now that those obligations—and I will explain it later on when I come to be examined—have been written off to a point at the market where a number of them have been converted into things that more than cover the amount of write-off.

Senator COUZENS. Were those write-offs included in the forty million odd?

Mr. ALDRICH. They are not in the Chase Securities Co. at all; they are in the bank.

The CHAIRMAN. What was the write-off? Do you remember?

Mr. ALDRICH. I prefer to wait and give you that in detail, Senator.

Senator COUZENS. All I want, and was trying to get, is what you Wall Street men use as a yardstick for arriving at fair valuation.

Mr. PECORA. That is, where there is no market value.

Senator COUZENS. Yes.

Mr. ALDRICH. The point I am trying to make is that those Fox obligations had been written off or reserved against until they had reached the point where the market value of the obligations which we now hold is greater than the amount we have written off.

Senator COUZENS. I want to advert to the criticism that has evidently been directed by Mr. Pecora: The fact that these statements that are rendered to the stockholders do not actually show a fair representation of the condition during the period over which the reports are made. Mr. Wiggin seemed to be quite satisfied that all the stockholder's interest was how much he had left; and that reminds me of the old-fashioned single-entry bookkeeping, when a merchant or a manufacturer or what not wound up his year's business by figuring how much more he had at that time than he did the year before, and that was all he was interested in. I thought we had developed our science of bookkeeping and accounting since then so that the stockholder had a greater interest than just simply knowing what he had left. But I was interested to know that Mr. Wiggin was still old-fashioned enough to believe that that was all the interest that the stockholder had.

Mr. ALDRICH. Senator, you understand the only thing I have in mind is that I am interested in not having any false impression get abroad as to the condition of the bank today.

Senator COUZENS. Oh, I am not trying to embarrass the Chase National Bank at this moment. I am trying to arrive at the methods employed up to the time we were making this examination.

Mr. ALDRICH. I understand that.

Senator COUZENS. I am informed unofficially and not on the record that the bank is run differently now than it was prior to January 1, 1933.

Mr. ALDRICH. I only interjected for the reason that I wanted to explain it.

Mr. PECORA. Mr. Wiggin, going back to this item of ninety-one million three hundred and forty thousand and odd dollars embodied in the statement of the condition of the Chase Securities Corporation as of December 31, 1932, you say there was included in that item of securities and investments carried at that 91-million-dollar figure



176,996 shares of the capital stock of the American Express Co., which were carried at an inventory value of \$40,031,677.85, which inventory value corresponded to the cost.

Mr. CONBOY. Would you mind if we have that question read?

Mr. PECORA. I was merely bringing Mr. Wiggin's attention back to that particular item. It was not a question. I was merely bringing his attention back to that particular item because I am now going to question him more in detail.

Mr. WIGGIN. Mr. Pecora, at the top of page 15 of the report, the report distinctly states as follows:

Chase Securities Corporation owns, and carries at cost on the annexed balance sheet, in excess of 98 percent of the stock of the American Express Co. and also all of the stock, except directors' shares, of the Equitable Trust Co., formed at the time of the merger of the Chase National Bank and the Equitable Trust Co. of New York to perpetuate the Equitable name and conduct a general trust business. It also owns all of the stock of Chase Harris Forbes Companies, which it carries on the balance sheet at cost less the amount of all known losses and portfolio market declines of that company since the date of acquisition in August 1930.

Mr. PECORA. You have already called attention to that.

Mr. WIGGIN. Yes; but it has a direct bearing on the inventory.

Mr. PECORA. I am now confining myself simply to the block of one hundred and seventy-six thousand and odd shares of American Express Co. stock which you say was included in this item of securities and investments at a valuation of ninety-one million three hundred and forty thousand and odd dollars.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. You also said that those shares of the American Express Co. stock included in this item of securities and investments were carried on the books as of the close of the year 1932 at the cost price of \$40,031,677.85.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. That one class of security represents about 42 percent of all of the securities and investments that are grouped together in this item of resources totalling ninety-one million and odd dollars?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. On December 31, 1932, did the Chase Securities Corporation own these 176,000 and odd shares of American Express Co. stock free of any lien?

Mr. WIGGIN. No, sir.

Mr. PECORA. What lien was on them at the time?

Mr. WIGGIN. They were pledged as collateral to a loan to the Chase National Bank.

Mr. PECORA. And when had they been so pledged?

Mr. WIGGIN. I cannot give you that date.

Senator COUZENS. Was it prior to the time that this was set up in this report?

Mr. WIGGIN. Oh, undoubtedly.

Senator COUZENS. And do you know how much it was?

Mr. WIGGIN. You see, the liabilities at that time—I will tell you how much this liability was—the liabilities were \$20,247,000.

Mr. PECORA. Was not this particular loan for \$17,586,810.67?

Mr. WIGGIN. I will ascertain that. I have not got it here.

Senator COUZENS. While they are looking that up, Mr. Wiggin, let me ask you a question. Assuming an applicant for a loan at your bank made a statement such as has been read into the record without showing a lien of \$17,586,000 against a certain collateral or asset, would he not be liable to a jail sentence if he got a loan, for a misstatement, in securing funds under false pretenses?

Mr. WIGGIN. Well, I do not know what the law is, but I know if Chase Securities borrowed money they told about this thing. There was no concealment.

Senator COUZENS. Assuming that the Chase Securities went to another institution outside of yours and borrowed money and presented such a statement, it seems to me that they would be obtaining money under false pretenses.

Mr. WIGGIN. They would not have done that.

Senator COUZENS. That is an assumption.

Mr. PECORA. What is that?

Mr. WIGGIN. They would not have done that.

Mr. PECORA. They would have shown the lien?

Mr. WIGGIN. Yes.

Mr. PECORA. Why was not the lien shown in this report to the shareholders?

Mr. WIGGIN. What difference does it make?

Mr. PECORA. The only difference that I can think of is that it would have given the shareholders a true and correct picture.

Mr. WIGGIN. Well, it did not affect them one way or another. The stock is not worth anything until the liabilities are paid.

Mr. PECORA. What difference does it make to the bank, then, when a customer seeks to borrow money and is asked to present a verified financial statement of his condition?

Mr. WIGGIN. What is the question, Mr. Pecora?

Mr. PECORA. Perhaps Mr. Bisbee will give you the answer. If you want to answer for the witness I am willing to let the record show it, Mr. Bisbee. I am asking these questions of a man who for years was the executive head of this bank and presumably knows something about banking practices.

Mr. WIGGIN. What is the question?

(The question was thereupon read by the reporter as above recorded as follows):

Mr. PECORA. What difference does it make to the bank, then, when a customer seeks to borrow money and is asked to present a verified financial statement of his condition?

Mr. PECORA (continuing). Whether or not in presenting that financial statement he omits to state that assets carried by him are subject to liens?

Mr. WIGGIN. This is a theoretical question?

Mr. PECORA. It is more than that, Mr. Wiggin.

Mr. WIGGIN. You want my opinion or guess on a theoretical question?

Mr. PECORA. Yes.

Mr. WIGGIN. Let me think that over. Of course, as you put it, it has no bearing on this case.

Mr. PECORA. Answer it anyway. The committee will judge whether it has a bearing.

Mr. WIGGIN. Why, I think a lender of money is entitled to know when the concern's assets are pledged.

Mr. PECORA. Is not a shareholder entitled to a knowledge equivalent to that when a report is given to him purporting to represent his company's operations and state of condition?

Mr. WIGGIN. Yes; but it does not affect the stockholder one way or another.

Mr. PECORA. Each stockholder himself can judge of that better than anyone else, can he not?

Mr. WIGGIN. I can see no impropriety in listing an inventory as an asset without explaining that so many of them are hypothecated. It does not affect the stockholders at all.

Mr. PECORA. You mean that in this case it would not affect the stockholder or the shareholder of the Chase Securities Corporation to know what liens were impressed upon assets of the company in favor of the Chase National Bank because, perchance, such a shareholder was an equal shareholder in the bank. Is that what you mean?

Mr. WIGGIN. No, I do not mean that. That has nothing to do with that equal ownership. It is simply that the capital stock of any corporation has no value until the liabilities are paid. Whether the liabilities are secured or unsecured does not affect the value of the stock.

Mr. PECORA. But when a bank makes a loan to a customer on a financial statement does not the bank require the customer to include in his financial statement of assets whether or not those assets are subject to any lien?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Why does the bank want to know that? Of what value is it to the bank in such cases?

Mr. WIGGIN. Each bank wants to be in just as good a condition as any other lender.

Mr. PECORA. Do you not think similar information would be of some value to the shareholders of the Securities Corporation?

Mr. WIGGIN. I do not see that it would be of any value, but I would have no objection to giving it to them.

Mr. PECORA. Was it ever given to the shareholders in any annual report?

Mr. WIGGIN. Of the Securities Corporation?

Mr. PECORA. Yes.

Mr. WIGGIN. I do not think so. I think it was always done the same way.

Mr. PECORA. In this printed report to the shareholders of both the Chase National Bank and the Chase Securities Corporation for the year 1931 there is also included a balance sheet statement of the condition of the bank as of December 31, 1932, is there not?

Mr. WIGGIN. I think I got the date wrong to begin with. Which year are you on now, Mr. Pecora?

Mr. PECORA. As of the end of the year 1932.

Mr. CONBOY. Your question referred to the year 1931.

Mr. PECORA. For the year 1932, I meant. Thank you; 1932.

Mr. WIGGIN. The question was about the bank statement?



Mr. PECORA. In this printed report to the shareholders of both the Chase National Bank and the Chase Securities Corporation, showing the condition of those two institutions on December 31, 1932, there is included a balance sheet statement of the condition of the bank as of that date, is there not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Will you turn to that balance sheet statement in that report?

Mr. WIGGIN. Yes.

Mr. PECORA. Under the caption of "Resources" do you find therein an item of "Loans and discounts" of \$887,187,429.74?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Presumably included in that item is this loan of seventeen million five hundred thousand and odd dollars to the Chase Securities Corporation which was secured by the collateral consisting of these one hundred and seventy-six thousand and odd shares of American Express Co. stock?

Mr. WIGGIN. Undoubtedly.

Mr. PECORA. In view of that fact might not an analyst of the report of both the bank and the securities corporation for the year 1932 find a duplication of this seventeen million five hundred thousand and odd dollars item in the joint assets of the bank and the securities corporation?

Mr. WIGGIN. Well, it is an asset on the bank statement and a liability on the securities corporation statement. The bank statement does not include the statement of the securities corporation, and that is printed at the bottom, if you will notice.

Mr. PECORA. Now, Mr. Wiggin, will you refer again to your copy of committee exhibit no. 8 of this date?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. That is that photostatic sheet which you have there.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And see if I make therefrom a correct statement or summarization of it. Cash paid by the public for capital stock of Chase Securities Corporation from its inception in 1917 down to the 30th of June of this year, aggregated \$68,343,785?

Mr. WIGGIN. That is correct.

Mr. PECORA. Stated value of all the capital stock issued by Chase Securities Corporation in exchange for capital stock of other corporations which were merged with it, was \$47,027,567.65?

Mr. WIGGIN. Correct.

Mr. PECORA. That makes a total of capital, both in cash and in capital stock of absorbed companies, provided by the public to the capital funds of Chase Securities Corporation, of \$115,371,352.65, does it not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, the net earnings after payment of taxes accruing to the company from its inception to the 30th day of June 1933 aggregated \$41,081,956.19.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And that added to its capital and the capital value of stock of other companies that it took in exchange in connection

with mergers, gave a total capital and net earnings to the company from its inception down to June 30, 1933, of \$156,453,308.84.

Mr. WIGGIN. That is right.

Mr. PECORA. That is correct, is it not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, of this sum there was paid out in dividends to shareholders, that is to say, cash dividends, the aggregate sum of \$21,907,500.

Mr. WIGGIN. Correct.

Mr. PECORA. And there was also set up for reserves to cover losses or against depreciation in value of securities carried in its portfolio, from its inception down to June 30, 1933, sums aggregating \$120,138,075.87.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, that left on June 30, 1933, out of all the capital funds and earnings of the company a capital and surplus of \$14,407,732.97.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And that was divided into a capital of \$7,400,000, and surplus, including earned surplus of \$407,732.97, of \$7,007,732.97.

Mr. WIGGIN. That is correct.

Senator COUZENS. So those figures show that you lost considerably over five times as much as you earned, or I mean rather than as you paid in dividends?

Mr. WIGGIN. The mark-downs equal that, yes. But you understand they have not necessarily sold the securities.

Senator COUZENS. Have you any information as to the part of the \$120,138,075.87 which has been actually lost, and how much of it is a write-down?

Mr. WIGGIN. No.

Senator COUZENS. I assume that your records would show what part of that loss had been taken off your income-tax returns, would they not?

Mr. WIGGIN. Undoubtedly.

Senator COUZENS. You could not take any of this charge off from your income-tax returns until it had been realized, could you?

Mr. WIGGIN. That is the way I understand it.

Senator COUZENS. Would you consider that a very good record?

Mr. WIGGIN. Oh, I think that is a very unfortunate record, but this is a world trouble and we are probably better than the average. There were some security companies that were wiped out entirely, many of them.

Mr. PECORA. Do you think this record vindicates the judgment of the authorities of the bank when through the securities affiliate they engaged in issuing securities, and underwriting them, trading in them?

Mr. WIGGIN. The figures do not verify that; no, sir.

Mr. PECORA. No. These results would rather condemn that, wouldn't they?

Mr. WIGGIN. Of course, until you realize and know what you are going to get from these assets you won't know how you are to come out, or what the final result is. But I agree with you that there is nothing in these figures that is especially pleasant.

Senator COUZENS. Have you any figures which would show how much of this loss has been actually realized?

Mr. WIGGIN. Not yet. We will have to get that from New York. Unfortunately we have not got that down here now.

Senator COUZENS. I should like to have that data, because I should like to know how much of it is left in your portfolio.

Mr. WIGGIN. We will get it for you.

The CHAIRMAN. You are not likely to write off more than you are quite convinced is necessary, are you? That is, you are not likely to write off what is too exaggerated, are you?

Mr. WIGGIN. Oh, I think frequently they will write off more than is necessary.

Mr. PECORA. Mr. Wiggin, the Chase National Bank, of course, was subjected to the various examinations at the hands of examiners of the Comptroller of the Currency from time to time?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And were examinations also made periodically of the bank by examiners for the Clearing House Association of New York?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. The Chase National Bank has been a member of the Clearing House Association of New York for a great many years?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Are you familiar with the reports made by those examiners, both from the Comptroller of the Currency and from the Clearing House Association?

Mr. WIGGIN. Up to the end of my term of office, yes, sir.

Mr. PECORA. Now, in the report for the year 1928 made by the national bank examiner, do you recall a statement, in words or substance, to the effect that—

Mr. Albert Wiggin dictates the policies of the bank.

Mr. WIGGIN. I don't remember it.

Mr. PECORA. Well, if such a statement were made in the report would it have been a true statement?

Mr. WIGGIN. No; I don't think so. I think that is rather an exaggeration.

Mr. PECORA. Do you recall that in the report made by the national bank examiner for November 1, 1929, the following statement, in words or in substance, was made:

The total assets for the Chase are the largest of any institution to date by a considerable extent. Physical and operating conditions are good, with assets possessing a high degree of liquidity and with earning power excellent.

And you are referred to:

As the most popular banker in Wall Street.

And then there is this further statement:

That the national banking system has a great standard bearer in the Chase National Bank.

Are you familiar with those statements?

Mr. WIGGIN. I may have seen them but if so I have not at this time the slightest recollection of it.

Mr. PECORA. Do you think the statements made here, or the one that you were the most popular banker in Wall Street was a little exaggeration?



Mr. WIGGIN. Decidedly.

Senator COUZENS. Do you ever employ bank examiners in your bank?

Mr. WIGGIN. Well, now——

Senator COUZENS (interposing). I mean, after a bank examiner had left the Government service?

Mr. WIGGIN. Yes, sir.

Senator COUZENS. How many ex-bank examiners have you employed in the Chase National Bank to your recollection?

Mr. WIGGIN. Well, I can only think of one, but there may be others.

Senator COUZENS. Who is the one you think of?

Mr. WIGGIN. Mr. Charles Smith.

Senator COUZENS. And was he in the Government service when you employed him?

Mr. WIGGIN. Well, we negotiated with him when he was in the Government service.

Senator COUZENS. And he is the only one that you can recall ever taking out of the Comptroller's office?

Mr. WIGGIN. He is the only one.

Senator COUZENS. Do your associates recall any other bank examiners who have been employed by the Chase National Bank?

Mr. WIGGIN. They were just reminding me of another name, but I am not sure whether he was a bank examiner or an assistant bank examiner. I do not know that I could properly include such a person.

Senator COUZENS. Well, they are all bank examiners, some being chief bank examiners and some assistant bank examiners.

Mr. WIGGIN. Sometimes they are paid by the man and sometimes paid by the Government, and I suppose one is a Government employee and the other is not.

Senator COUZENS. Where is a case where a chief bank examiner has paid a man?

Mr. WIGGIN. I was. I was an assistant bank examiner but never received anything from the Government.

Senator COUZENS. How long ago was that?

Mr. WIGGIN. Oh, a long time ago.

Senator COUZENS. I am asking that because I do not think there is any such practice permitted now.

Mr. WIGGIN. I think the law has changed the whole thing.

Senator COUZENS. Well, I did not want it to go out to the public that there is anybody paying these examiners today except the Government.

Mr. WIGGIN. Well, I don't think there is anybody else paying them now.

Senator COUZENS. And that that practice does not exist now?

Mr. WIGGIN. I don't think it does.

Senator COUZENS. From my observation it has become quite a common practice among banks throughout the country, especially during prosperous times, to employ bank examiners, and I suspect they are sometimes employed because of these fulsome compliments you commented upon a while ago.

Mr. WIGGIN. I would like to make an answer to that, but let me get one fact here [consulting an associate].

Mr. BISBEE. Senator Couzens, do you object to my suggesting a name to the witness of one who might come within your category?

Senator COUZENS. Not at all.

(There was a consultation between Mr. Bisbee and the witness.)

Mr. WIGGIN. It seems that there are three names suggested of men who have been assistant bank examiners, not chief bank examiners, but employment by the Government. Mr. Rovensky—

Senator COUZENS. What is his position with your bank?

Mr. WIGGIN. He is a vice president in the foreign department. And they think that Mr. Telleen was in the comptroller's department, but we are not sure about that.

Senator COUZENS. What is his position now?

Mr. WIGGIN. Assistant vice president. And Mr. Biggerman.

Senator COUZENS. What is his position now?

Mr. WIGGIN. Oh, please leave Mr. Telleen's name off. That is a mistake they tell me.

Senator COUZENS. Go ahead with your answer.

Mr. WIGGIN. And Mr. Hughes.

Senator COUZENS. What is his position and, also, what is Mr. Biggerman's position?

Mr. WIGGIN. Second vice president they call it. Mr. Hughes is assistant cashier. I think, perhaps, I ought to say this: Mr. Smith is one of our senior officers, who came in, I think, in 1921. We took him in because we wanted somebody to help keep things straight and conservative. It wasn't any reward for anything he had done.

Senator COUZENS. I did not challenge any motive.

Mr. WIGGIN. No; I understand.

The CHAIRMAN. How many employees of the bank have become bank examiners; do you know?

Mr. WIGGIN. I do not think of any, but I cannot be sure.

Mr. PECORA. Mr. Wiggin, do you recall that the National Bank examiner in his report of April 1930 stated, in words or substance, as follows:

So long as A. H. Wiggin continues to dominate the policies of this institution I feel that its responsibility will be as adequately carried on in the future as in the past.

Mr. WIGGIN. I do not recall it.

Mr. PECORA. And you see again in 1930 the bank examiner referred to you as—

Dominating the policies of the institution.

And also it had been said by the examiner in 1928. He then said:

Mr. Albert Wiggin dictates the policies of the bank.

Was it an exaggeration also in 1930?

Mr. WIGGIN. I think so.

Mr. PECORA. Would you say that there was anyone who dominated the policies of the bank in 1930 or exercised greater influence in determining its policies, than you did?

Mr. WIGGIN. No, there was no one with any greater influence, but it was in 1930 when we had the governing board.

Mr. PECORA. Is that also true about 1928?

Mr. WIGGIN. There was no governing board at that time, but I do not think I dictated things at all.

Mr. PECORA. Well, was there any officer of the bank who exercised greater influence in determining or shaping the policies of the bank in 1928 than you did?

Mr. WIGGIN. Nobody had greater influence.

Mr. PECORA. Mr. Chairman, that concludes this particular line of examination. I see it is now 10 minutes to 4 o'clock, and I should like to take up a line of examination with this witness that would relate to many transactions to which the Metpotan Co. was a party. I suggest that we now take a recess until tomorrow morning.

Senator COUZENS. I should like to ask Mr. Wiggin if, through his long experience in the banking business, he would not believe it would be a wise precaution to enact a statute prohibiting bank examiners from being employed by banks for 2 years after they leave the Government service, something like what was done about practitioners or employees of the Bureau of Internal Revenue.

Mr. WIGGIN. Yes; I would see no objection to it. But it might make it more difficult to fill positions in the bank examiner's department of the Comptroller of the Currency, because I think many of them use it because of an ambition to get into a bank.

Senator COUZENS. And that ambition to get into a bank might lead them to reach a wrong conclusion as to the condition of a bank in reporting to their chief?

Mr. WIGGIN. No; I don't think that kind of fellow would get position in a bank.

Senator COUZENS. Well, of course you can't tell until after the event, as a rule.

The CHAIRMAN. There is no difficulty about getting bank examiners now.

Senator COUZENS. Nor any other kind of men.

Mr. CONBOY. Mr. Chairman, before you adjourn I should like to know something with respect to the status of counsel here. I do not think I have made any speeches in connection with the examination of the witness, and such observations as I have made from time to time have been such as I thought were germane to the examination. If it is intended that we should discontinue that entirely, we ought to be so informed. If we are to be here so as to be as helpful as we can in connection with the examination, all right. I do not like the criticism that anybody has been making speeches during the examination of the witness. I am sure the remark was not so intended, but it had an indication of that character.

Senator COUZENS. If the chairman wishes to make reply, he may go ahead and I will make my comment later.

The CHAIRMAN. We do not object to proper help being given to the witness from time to time. We just do not want too many interruptions and too many people trying to speak at the same time.

(Thereupon there was a little discussion off the record.)

The CHAIRMAN. The subcommittee will stand adjourned until 10 o'clock tomorrow morning.

(Thereupon, at 3:52 p.m., Wednesday, Oct. 18, 1933, the committee adjourned to meet at 10 o'clock the following morning, Thursday, Oct. 19, 1933.)





# STOCK EXCHANGE PRACTICES

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THURSDAY, OCTOBER 19, 1933

UNITED STATES SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON  
BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to adjournment on yesterday, at 10 a.m. in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Townsend, Couzens, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Martin Conboy, counsel for Albert H. Wiggin; Eldon Bisbee, Henry Root Stern, Alfred E. Mudge, Joseph B. Lynch, Julian L. Hagen, and C. Horace Tuttle of Rushmore, Bisbee & Stern, and also Albert G. Milbank, William Dean Embree, and A. Donald MacKinnon of Milbank, Tweed, Hope & Webb, counsel for The Chase National Bank and The Chase Corporation.

The CHAIRMAN. The subcommittee will come to order. You may proceed, Mr. Pecora.

## TESTIMONY RESUMED OF ALBERT H. WIGGIN

Mr. PECORA. Mr. Wiggin, reference has heretofore been made to a corporation called the Metpotan Securities Corporation. You are familiar with that corporation, aren't you?

Mr. WIGGIN. More or less; yes, sir.

Mr. PECORA. When was the Metpotan Securities Corporation organized, Mr. Wiggin?

Mr. WIGGIN. In 1921.

Mr. PECORA. Was that on the occasion of the merger between the old Metropolitan Trust Co. and the Chase—

Mr. WIGGIN (interposing). No, sir. It was at the time of the merger of the Metropolitan Bank, not the Metropolitan Trust Co. That was a different institution. At the time of the merger of the Metropolitan Bank with Chase.

Mr. PECORA. Oh, it was the Metropolitan Bank, was it?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Is the Metpotan Securities Corporation still actively engaged in business?

Mr. WIGGIN. It is still in business, but I do not know that it is active.

Mr. PECORA. You do not know how active it is?

Mr. WIGGIN. No.

Mr. PECORA. It is a wholly owned corporation, I mean wholly owned by the Chase Securities Corporation, isn't it?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And has been from its inception?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Did you hold any office in the Metpotan Securities Corporation at any time?

Mr. WIGGIN. No, sir.

Mr. PECORA. Were you a director of it?

Mr. WIGGIN. No, sir.

Mr. PECORA. Were you familiar with the various activities participated in by that Metpotan Securities Corporation in which the corporation, with others, traded in the capital shares of the Chase National Bank?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I want especially to call your attention to those activities, embraced within a period of time beginning on January 1, 1928, and terminating on December 31, 1932.

Mr. WIGGIN. All right.

Mr. PECORA. Do you recall a joint account that was formed on or about September 21, 1927, which was participated in by the Metpotan Securities Corporation and by the following firms: McClure, Jones & Co., Potter & Co., and Blair & Co.?

Mr. WIGGIN. I know that there was such an account.

Mr. PECORA. Who managed that account?

Mr. WIGGIN. The Metpotan Securities Co. managed the account. Is it the Metpotan Co. or the Metpotan Securities Co.? [Addressing an associate.] It is the Metpotan Securities Corporation, Mr. Pecora, that managed the account.

Mr. PECORA. What was the purpose of the account?

Mr. WIGGIN. To buy and sell stock of the bank.

Mr. PECORA. Of The Chase National Bank?

Mr. WIGGIN. Yes, sir.

The CHAIRMAN. Who were the officers of the Metpotan Securities Corporation at that time?

Mr. WIGGIN. I will have to ascertain. I cannot remember.

The CHAIRMAN. All right, please do so.

Mr. WIGGIN. Just a minute, please.

The CHAIRMAN. Very well.

Mr. WIGGIN. My associates have now given me a schedule and I can answer the question.

The CHAIRMAN. All right. Please do so.

Mr. WIGGIN. Its president was R. L. Clarkson; treasurer, W. G. Shaible; secretary, W. W. Downing; vice president, H. G. Freeman, and vice president, D. A. Holmes.

Mr. PECORA. What connection did they have outside of those offices with the Metpotan Securities Corporation?

Mr. WIGGIN. They were all associated either with the bank or with the Securities Co., but I think they were all connected with the Securities Co. I can verify that if you wish me to do so.



Mr. PECORA. Have you a copy or the original of any letter or agreement respecting the terms and conditions upon which this joint account was formed in September of 1927?

Mr. WIGGIN. No. I have none.

Mr. PECORA. Can you produce a letter, or a copy thereof, dated September 21, 1927, addressed by the secretary of the Metpotan Securities Corporation to Blair & Co.?

Mr. CONBOY. That is the letter that we furnished you a photostat of, Mr. Pecora?

Mr. PECORA. Yes.

Mr. WIGGIN. Yes, sir; I have it here.

Mr. PECORA. Do you recognize that letter to be a true copy of a letter so sent under date of September 21, 1927, to Blair & Co. by the Metpotan Securities Corporation?

Mr. WIGGIN. I have no question about that. I assume that it is.

Mr. PECORA. I offer that letter in evidence, and ask that it may be spread on the record of the subcommittee's hearings.

The CHAIRMAN. That will be done.

(The photostat of the letter dated September 21, 1927, was marked "Committee Exhibit No. 9, October 19, 1933," and will be found below where read by Mr. Pecora.)

Mr. PECORA. The letter reads as follows:

SEPTEMBER 21, 1927.

BLAIR & Co., INC.,

24 Broad Street, New York, N.Y.

GENTLEMEN: We confirm that we have this day formed a 4-4 account in which McClure, Jones & Co., Potter & Co., yourselves, and ourselves each have a one fourth interest, for the purchase and sale of stock of the Chase National Bank and Chase Securities Corporation. The account has today purchased 313 shares at \$525 per share. It may also trade in such stock in the market, with the understanding that as a result of such trading, the account shall not be long at any one time more than 1,800 shares.

It is our understanding that of the stock in the account 50 percent is to be carried by yourselves and 50 percent by ourselves. And that we are to charge the account at the end of each month 5 percent interest per annum for carrying.

The account shall run for a period of 60 days from September 21, 1927, but may be further extended by mutual consent of all the members.

Kindly confirm that the above is in accordance with your understanding.

Very truly yours,

\_\_\_\_\_  
Secretary.

Senator COUZENS. Who is it signed by?

Mr. PECORA. The copy that we have does not show a signature, but, apparently, it was signed by the secretary of the Metpotan Securities Corporation.

Mr. CONBOY. What was that last paragraph that you read, Mr. Pecora?

Mr. PECORA. It reads:

Kindly confirm that the above is in accordance with your understanding.

Mr. CONBOY. All right.

Mr. PECORA. Why do you ask? Wasn't that the way that I read it?

Mr. CONBOY. I think not. I think you used the word "suggestion."

Mr. PECORA. Will the committee reporter read the last paragraph that I just read.

The Committee Reporter (Mr. Hart). As I took it down from your reading it was:

Kindly confirm that the above is in accordance with your suggestion.

Mr. PECORA. Oh, I beg pardon. I misread the word. It should have been "understanding" instead of the word "suggestion."

Mr. CONBOY. That was what I wanted to make sure of.

Mr. PECORA. Mr. Wiggin, this account was not, as a matter of fact, terminated at the end of 60 days from September 21, 1927, but continued for a period of about six months, to March 20, 1928, did it not?

Mr. WIGGIN. Mr. Hargreaves tells me that is correct.

Mr. PECORA. And do you know how many shares were traded in for the purpose of this account during its existence?

Mr. WIGGIN. Is this your question of yesterday, Mr. Pecora? Is that the figure you now want?

Mr. PECORA. No. It is just simply one of the items.

Mr. WIGGIN. And this is how much was traded in?

Mr. PECORA. How many shares were traded in by this account during its existence?

Mr. WIGGIN. The same stock was sold; yes, sir.

Mr. PECORA. Yes.

Mr. WIGGIN. I am advised that the total purchases were 22,217 shares.

The CHAIRMAN. How about sales?

Mr. WIGGIN. The same stock was sold; yes, sir.

Mr. PECORA. Was it all sold?

Mr. WIGGIN. So they tell me; yes, sir.

Mr. PECORA. So that upon the termination of the account there was no distribution of stock among the participants?

Mr. WIGGIN. That is correct, I am informed.

Mr. PECORA. Do you know how much money was laid out in the acquisition of those shares, or what the shares cost the account?

Mr. WIGGIN. Mr. Hargreaves tells me that the amount was \$13,240,356.32.

Mr. PECORA. During the operation of this account all those shares were sold by March 20, 1928?

Mr. WIGGIN. I am so advised.

Mr. PECORA. What was the total?

Mr. WIGGIN. May I make one statement right there, perhaps so there won't be any misunderstanding about it, that the account was extended again, from March into April?

Mr. PECORA. To what date in April?

Mr. WIGGIN. April 18, I am advised.

Mr. PECORA. Well, wasn't another joint account entered into on April 18, 1928?

Mr. WIGGIN. I will ascertain that. (After conferring with an associate.) Yes, sir.

Mr. PECORA. So that instead of there having been an extension of this account beyond April 18, 1928, a new account was entered into on that date?

Mr. CONBOY. Mr. Wiggin did not say it was extended beyond April 18. He said it was extended from March 20 to April 18. You

see, Mr. Pecora, originally it was extended to March 20, and then again extended to April 18.

Mr. PECORA. All right. We now so understand. Now, referring to this first account, which you say now was extended from March 20 to April 18, 1928, what was realized from the sale of the 22,217 shares of bank stock that had been acquired?

Mr. WIGGIN. I am advised that the amount realized was \$13,290,977.05.

Mr. PECORA. That resulted in a profit of how much to the syndicate, that is, the gross profit?

Mr. WIGGIN. I am advised that the profit was \$50,620.73.

Senator COUZENS. Have you any information as to who was selling this stock at that time, and who were buying it?

Mr. WIGGIN. Do you mean when the Metpotan Co. purchased it, who was the seller?

Senator COUZENS. Yes.

Mr. WIGGIN. I haven't any idea. (Inquiring of an associate.) I cannot answer that question. We have no knowledge of it.

Senator COUZENS. Were you selling any?

Mr. WIGGIN. I do not think so.

Mr. PECORA. Do you know how many of those 22,217 shares which were acquired and sold by this syndicate were actually transferred of record?

Mr. WIGGIN. I have no knowledge of that, of course. (Inquiring of an associate.) I do not know of any way of determining that.

Mr. PECORA. Was this syndicate account conducted in the over-the-counter market or in the exchange market during the period of time that the stock was listed on the New York Stock Exchange?

Mr. WIGGIN. Some of the transactions may have been on the exchange. I have no knowledge, but the bulk of the market, of course, was off the exchange, in the over-the-counter market.

Mr. PECORA. Mr. Wiggin, what was the purpose in the formation of this syndicate and the conduct of its operations in the stock of the bank?

Mr. WIGGIN. Hoping to keep a steady market in the stock.

Mr. PECORA. Was that the only purpose?

Mr. WIGGIN. I think so.

Mr. PECORA. Did the bank at that time contemplate any merger with any other bank?

Mr. WIGGIN. This is what year?

Mr. PECORA. 1928.

Mr. WIGGIN. I do not know, but I do not think there was anything of the kind in contemplation at that time.

The CHAIRMAN. Were those associates of yours particularly interested in keeping a market for the bank stock?

Mr. WIGGIN. No. I think they did it simply to make money.

Senator COUZENS. Do you consider that a good practice in the handling of stock of a national bank?

Mr. WIGGIN. I think so. I think it wise to have a market for stock.

Senator COUZENS. Well, then, why did you take it off the New York Stock Exchange listing?

Mr. WIGGIN. Well, for the reasons that I gave on yesterday, Senator Couzens. There are no other reasons.



Senator COUZENS. You must have changed your mind about it, because you think it is good practice to do that with national bank stock, and still you took it off the market for the reasons you indicated on yesterday.

Mr. WIGGIN. Well, the Stock Exchange did not furnish the big market on bank stocks, you know. The big market was the over-the-counter market, as Mr. Pecora pointed out on yesterday.

Senator COUZENS. Would you think it good practice to engage in now, with the present status of banking generally?

Mr. WIGGIN. I think so, probably a much better practice now than then.

Senator COUZENS. Then you believe in speculation in bank stocks?

Mr. WIGGIN. I believe in the purchase and sale of bank stocks; yes, sir.

Mr. PECORA. Well, in answer to Senator Couzens' last question you said you believed in the purchase and sale of bank stocks. The question, as I recall it, was: if you believed in speculation in bank stocks. Do you think the terms used by you are synonymous with those used by Senator Couzens?

Mr. WIGGIN. No, sir; and that was the reason I answered differently, because I do not think them synonymous.

Mr. PECORA. Why don't you answer Senator Couzens' question, then?

Mr. WIGGIN. Well, that is opening up the whole question of whether speculation is justified or not.

Mr. PECORA. Well, I presume Senator Couzens desired you to open it up when he asked you the question.

Mr. WIGGIN. Well, that requires a great deal of consideration, when you are going to answer a general question as to whether you really believe in speculation or not.

Mr. PECORA. Do you believe in speculation in bank stocks? Do you believe it was the proper thing for any subsidiary of Chase Securities Corporation, which in terms was an investment affiliate of The Chase National Bank, to indulge in speculation in the stock of the bank, by the Securities Corporation?

Mr. WIGGIN. First, I should like to know what speculation is.

Mr. PECORA. Well, that seems to be a term that nobody in Wall Street is quite able to define, or at least is willing to define, so far as our experience here is concerned. But what does speculation in stock mean to you?

Mr. WIGGIN. This is simply asking my opinion as to what is speculation in stocks?

Mr. PECORA. Yes.

Mr. WIGGIN. An investment that is unsuccessful is usually called a speculation.

Mr. PECORA. Is that what the term speculation means to you?

Mr. WIGGIN. I think that is about what it means to investors.

Mr. PECORA. What is the difference between speculation in stock and gambling in stock, to your notion?

Mr. WIGGIN. You are asking me questions that there is no definite answer to. It is really a matter of opinion that you are asking me to express.

Mr. PECORA. Let us have your opinion. We understand that you are not on the stand as an expert lexicographer.

Mr. WIGGIN. I think in the newspapers the words "gambling in stocks" and the words "speculation in stocks" are given about the same interpretation.

Senator COUZENS. Is that your interpretation of them?

Mr. WIGGIN. I do not know how to describe gambling in stocks.

Senator COUZENS. Well, what is the difference, then, between your understanding of investment in stocks and speculating or gambling in stocks? I have a very clear idea of what investment is, and I also have a very clear idea of what speculation and gambling in stocks means, but I should like to know if you think the two names are synonymous.

Mr. WIGGIN. Of course I find in New York that if the individual investor, or speculator, borrows from a stockbroker and carries the stock on margin account, it is termed a speculation, whereas if he pays for it they call it an investment. Or if he borrows from a bank they call it an investment. It is a pretty narrow definition, but I think it does exist.

Senator COUZENS. Is the time that he holds it any factor as to whether he is speculating or investing?

Mr. WIGGIN. Yes; I think so. But I do not know just where you would draw the line.

Senator COUZENS. Where would you draw the line between investing in stock or speculating or gambling in stock?

Mr. WIGGIN. I cannot draw that line.

The CHAIRMAN. I understood you to say that if the investment was unsuccessful you would call it speculation. If it is successful what would you call it?

Mr. WIGGIN. Then they think they have made a wise investment. [Laughter.]

Mr. PECORA. Have you heard of persons operating in the stock market for speculative purposes right at the outset?

Mr. WIGGIN. Might I have that question read to me?

Mr. PECORA. Certainly. The committee reporter will read the question to you. (Which was done.)

Mr. WIGGIN. I think so; yes, sir.

Mr. PECORA. How would you denominate a speculative operation of that nature? How would you describe it?

Mr. WIGGIN. Oh, I don't know how to describe those things.

Mr. PECORA. Now, speculative operations very often are successful, too, aren't they, and result in a profit to the speculator?

Mr. WIGGIN. I think they used to be. [Laughter.]

Mr. PECORA. Well, when they did—and apparently they still do according to some reports—but when they did they were speculations from the outset, weren't they?

Mr. WIGGIN. Oh, I think, in some cases.

Mr. PECORA. Doesn't that cause your definition, or rather your distinction, between speculation and investment to virtually disappear?

Mr. WIGGIN. Possibly. I do not mean to pose as an expert on definitions, you understand.

Mr. PECORA. When you hear that a person is going to invest in securities, what does that convey to you?

Mr. WIGGIN. That they have money to use, that they want to use in a way that will give them an income return.

Mr. PECORA. And when you hear that a person is going to speculate in the stock market what does that convey to your mind as indicating what kind of operation it is?

Mr. WIGGIN. That they are planning to make purchases and sales hoping to make a profit.

Mr. PECORA. Hoping to make a profit by resale at a higher figure?

Mr. WIGGIN. Rather than income from the investment, yes.

Mr. PECORA. Well, now, when the Metpotan Securities Corporation entered into this joint account in September of 1927, with Blair & Co., McClure, Jones & Co., and Potter & Co., did it contemplate going into a speculative transaction or an investment transaction?

Mr. WIGGIN. I do not consider that it was an investment, that it was intended as an investment, and I do not think they regarded it as a speculation. I think they regarded it as a temporary purchase, but not done for the purpose of speculation.

Mr. PECORA. As a temporary purchase, did you say?

Mr. WIGGIN. As a temporary investment.

Mr. PECORA. As a temporary investment, do you say?

Mr. WIGGIN. As a temporary investment, I would say.

Mr. PECORA. They did not make that investment for the purpose of getting income from it particularly, did they?

Mr. WIGGIN. No. I think they expected to turn it over.

Mr. PECORA. They expected to turn it over within a short period of time at a profit?

Mr. WIGGIN. They hoped to do so.

Mr. PECORA. And the period of time within which they expected to turn it over at a profit was originally fixed in the agreement among the participants as 60 days, a 60-day period.

Mr. WIGGIN. Whatever it was.

Mr. PECORA. Well, the exhibit that has been put in evidence shows that. I am now referring to committee exhibit no. 9 of this date.

Mr. WIGGIN. Yes.

Mr. PECORA. That was a speculative operation, wasn't it, which was contemplated in behalf of the syndicate at that time, as distinguished from an investment operation?

Mr. WIGGIN. Possibly. I think speculation is a very difficult term to describe. I think whether it is a speculation or not is dependent upon the wealth or the capital of the person doing it, whether they can afford to stay with it. There are a great many things that enter into the definition of speculation.

Senator COUZENS. One of the newspaper correspondents asked me to ask this question. If one selects the winning horse, is that an investment?

Mr. WIGGIN. I am not an expert.

Mr. CONBOY. That is a horse of another color.

Senator COUZENS. If he picks the wrong horse and loses, I suppose that is not an investment, but if he wins, that is an investment.

Mr. PECORA. Returning to the question Senator Couzens asked you a few minutes ago, do you believe in speculation in bank stocks on behalf of an investment subsidiary of the bank?

Mr. WIGGIN. I believe that it is perfectly proper for a company to buy and sell bank stock.



Mr. PECORA. I do not think that answers the question, Mr. Wiggins. The question is not whether you believe it is proper for a company to buy and sell bank stock. Do you believe that it is proper to buy and sell the bank stock when the buying and selling operations are undertaken as a speculation, as distinguished from an investment?

Mr. WIGGIN. I cannot say yes to that question, because I cannot consider that it was a speculation just because they did not keep it any great time.

Mr. PECORA. You have seen, from the terms of the agreement among the syndicate members with regard to this account, that at the time it was formed the syndicate intended to trade in the stock of the bank for a period of only 60 days. Would not that stamp their operations as a speculation rather than as an investment?

Mr. WIGGIN. It would not stamp it as a permanent investment, I thoroughly agree, but I do not think it stamps it as a speculation, merely because a concern in the financial business buys some securities expecting to sell them out. That does not necessarily mean it is speculation.

Mr. PECORA. The term "investment" as ordinarily understood, signifies a transaction where a person buys securities for the purpose of deriving an income from them, in other words, putting his money to work to gain interest or income for him. Is not that usually what is denoted by the term "investment"?

Mr. WIGGIN. Frequently.

Mr. PECORA. Isn't it usually applied to such transactions?

Mr. WIGGIN. Yes; I think usually.

Mr. PECORA. You said that a speculation differed from an investment, did you not?

Mr. WIGGIN. Did I?

Mr. PECORA. In certain respects. Did you not point out certain differences between a speculation and an investment?

Mr. WIGGIN. I think so.

Mr. PECORA. What were the differences?

Mr. WIGGIN. I would like to answer the same as I did before, if you will let me.

Mr. PECORA. Answer it the same as you did before.

Mr. WIGGIN. I don't remember what I said.

Mr. PECORA. Tell us now what you would consider to be the difference between an investment and a speculation, as applied to stock-market transactions.

Mr. WIGGIN. I think an investment is usually made for the purpose of using money on hand to bring in an income.

Senator COUZENS. When you entered into this agreement that has just been discussed, you had no knowledge that you were going to win or lose, did you?

Mr. WIGGIN. No, sir.

Senator COUZENS. Not having any assurance that they were going to make any money, or that they were going to lose any, it was purely speculative. In other words, it seems to me that is perfectly clear, by any interpretation of the agreement. I just wanted to have you say whether you thought that was not purely speculative, in view of the fact that you did not know whether you were going to make or lose anything in buying and selling this stock.

Mr. WIGGIN. I should not consider it purely a speculation; no, sir.

Mr. PECORA. Did you consider it an investment?

Mr. WIGGIN. It was not an investment in the sense that we expected to keep it forever.

Mr. PECORA. As a matter of fact, it was contemplated by this syndicate that in its operations it would not only buy Chase National Bank stock, but would sell at the same time, and within the same period of time, was it not?

Mr. WIGGIN. That is the reason I do not consider that it should be regarded as an investment.

Mr. PECORA. Do those features stamp the account as a speculation?

Mr. WIGGIN. On the theory that a purchase of a security must be either an investment or a speculation?

Mr. PECORA. I have not advanced any such theory.

Mr. WIGGIN. Apparently; yes. Apparently you say that if it was not one it must have been the other. I cannot agree with that.

Mr. PECORA. You have already indicated that it was not an investment. If it was not an investment, what was it?

Mr. WIGGIN. It was a purchase made with the expectation of selling it out in the near future.

Mr. PECORA. How would you characterize the operations of such an account?

Mr. WIGGIN. I should characterize it as an account formed to stabilize the market in the stock, with the expectation of disposing of it in the near future.

Mr. PECORA. What interest did Blair & Co., Potter & Co., and McClure, Jones & Co. have in stabilizing the market for the bank stock?

Mr. WIGGIN. I do not think they had much interest in that part of it.

Mr. PECORA. In view of the fact that each one of these participants had a 25 percent interest in this account, and that three of the four participants were concerns that had no interest in stabilizing the market for the bank stock, you do not mean to tell this committee that in your opinion this account was formulated and carried on for the purpose of stabilizing the bank stock in the market, do you?

Mr. WIGGIN. I think the point of view of the Metpotan Co. might have been different from the others.

Mr. PECORA. That does not answer the question either, Mr. Wiggin.

Mr. WIGGIN. You do not want me to tell what was in the minds of McClure, Jones & Co., or Blair's?

Mr. PECORA. I want you to tell the committee, so far as you are able to do so, what was the purpose of the formation of this syndicate, participated in by four members, each having a 25 percent interest in it.

Mr. WIGGIN. I have already tried to tell you the purpose of the Metpotan Co.

Mr. PECORA. The Metpotan is only one party.

Mr. WIGGIN. I cannot speak for the others.

Mr. PECORA. Why was it necessary for the Metpotan, if it had only that purpose that you have referred to, of stabilizing the market, to go into a syndicate with other participants who were not animated by that purpose?

Mr. WIGGIN. Because they expected to sell it out, and the Metpotan was not a selling organization.

Mr. PECORA. What do you mean when you say the Metpotan was not a selling organization?

Mr. WIGGIN. It had no organization for distribution of securities.

Mr. PECORA. Were not these open-market transactions, Mr. Wiggin?

Mr. WIGGIN. I think so.

Mr. PECORA. Were any special facilities needed by any of the syndicate members for distribution of the stock, in view of the fact that the operations or transactions were open-market transactions?

Mr. WIGGIN. Yes; I think so.

Mr. PECORA. Why was it necessary for them to have distributing facilities other than those provided by the open market?

Mr. WIGGIN. Perhaps it was not. Perhaps you are right.

Mr. PECORA. Now, will you answer the question? Why was it necessary for the Metpotan Corporation, if its sole purpose was to stabilize the market for the bank stock at that time, to enter into a syndicate arrangement with three other concerns that were not animated by the same purpose?

Mr. WIGGIN. I think it reduced the investment that the Metpotan would make. It reduced the amount of money that it would tie up, these other people participating.

Mr. PECORA. Was it necessary, in order merely to stabilize the market, to indulge in transactions that involved the purchase and sale of an aggregate of 22,217 shares?

Mr. WIGGIN. I do not know.

The CHAIRMAN. What effect did this operation have on the bank?

Mr. WIGGIN. I don't think it had any effect.

The CHAIRMAN. Was it intended to have any effect on the bank?

Mr. WIGGIN. Only indirectly, that they felt that a stable market on the stock was beneficial.

The CHAIRMAN. You do not think it had any effect on the bank at all, one way or the other?

Mr. WIGGIN. I do not think so.

Mr. PECORA. You have used the term "stable market." What do you mean by it?

Mr. WIGGIN. A market that avoids violent fluctuations.

Mr. PECORA. Was the market, prior to the formation of this syndicate, attended by violent fluctuations in the bank stock?

Mr. WIGGIN. I do not know. I do not remember.

Mr. PECORA. Can you find out from any of your associates whether the condition of the market immediately prior to the formation of this syndicate was such that it was deemed advisable or necessary to stabilize the market through the operations of this syndicate?

Mr. WIGGIN (after conferring with associates). Mr. Hargreaves advises me that there was not any violent fluctuation at that time, and he further advises me that the formation of this account was not so much at this time for stabilizing as to get the increased distribution, and an increased number of stockholders for the bank.

Mr. PECORA. How could that be accomplished if the members of the syndicate were going to buy these shares in the open market and sell them in the open market at the same time? How would



that effect a wider distribution of the stock? In other words, if I understand your last answer, Mr. Wiggins, the members of this syndicate intended to buy in the open market a certain number of shares of the bank stock and sell those shares, also in the open market. How could a wider distribution of the bank stock be effected by any such process?

Mr. WIGGINS. Well, I do not know. They may have bought it over their own counters. I do not know where they bought it. I presume most of it came from the open market. They may have sold some of it over their own counters. I do not know where they sold it.

Mr. PECORA. Were Blair & Co., Potter & Co., and McClure, Jones & Co. interested in obtaining wider distribution for the bank stock at that time?

Mr. WIGGINS. I think so; yes, sir.

Mr. PECORA. What interest did they have in it which would produce such a desire on their part?

Mr. WIGGINS. To make money.

Mr. PECORA. How would money be made merely by a wider distribution of the stock? In other words, if the stock were purchased from one person and sold to 10, how would that lead to the making of money?

Mr. WIGGINS. I think it makes a broader market.

Mr. PECORA. A broader market for future operations?

Mr. WIGGINS. Possibly.

Mr. PECORA. Was that the purpose of the Metpotan Co. going into this syndicate?

Mr. WIGGINS. A wider distribution?

Mr. PECORA. Yes.

Mr. WIGGINS. I am so advised; yes, sir.

Mr. PECORA. Did you indulge, for your own account or for the account of any of the companies that you have referred to as being your own family or personal corporations, in the buying and selling of Chase National Bank stock during the life of this syndicate account that we are speaking of?

Mr. WIGGINS. I will have to ascertain.

Mr. PECORA. Will you please do so?

Mr. WIGGINS (after conferring with associates). This took a little time. I am sorry. The family holdings were increased 1,100 shares during this particular period.

Mr. PECORA. Through the Shermer Corporation?

Mr. WIGGINS. Partly through the Shermer and partly personally.

Mr. PECORA. What were the market quotations for the stock of the bank at the time of the formation of this so-called "4-4 account" with McClure, Jones & Co., Potter & Co., and Blair & Co.?

Senator ADAMS. The purchase price of the stock of the syndicate was, roughly, \$600 a share, was it not?

Mr. WIGGINS. Let me verify that. I think that is right.

Senator ADAMS. That is my rough computation.

Mr. CONBOY. That would be approximately the average purchase price of the 22,217 shares.

Senator ADAMS. That is what I mean. What is the present market price of that stock?

Mr. WIGGINS. 23 to 25.

Mr. CONBOY. But, Senator, it has been split 5 for 1.

Senator ADAMS. So, it would be something like 115 on that basis.

Mr. WIGGIN. 115 to 125.

The CHAIRMAN. Did you state what the market was on this stock when this corporation was formed?

Mr. WIGGIN. Senator Adams, have you that figure?

Senator ADAMS. I figured out, in a rough way, that you purchased 22,217 shares approximately at an average of \$600 a share, a shade more than that; and, of course, your sales are distributed so there would be only some two or three dollars more per share in the sale.

The CHAIRMAN. The market price at the time this corporation was formed was \$600 a share?

Mr. BISBEE. That was the average of the purchases, Senator?

The CHAIRMAN. Yes.

Senator ADAMS. The letter here indicated that the first purchase was something like 525 or 535, Mr. Chairman.

Mr. WIGGIN. The question was as to the market price at the time this account was formed; that is, in September 1927. The high for that month was 635 per share and the low was 570 per share.

The CHAIRMAN. How much did the stock rise during the operation of this account?

Mr. WIGGIN. At the time the account was opened, September 21, 1927, the quotation was 575-580. April 18, 1928, which I think was the date of the closing of the syndicate, the quotation was 684 bid, 690 asked.

The CHAIRMAN. A rise of nearly 100 points.

Mr. WIGGIN. Yes.

The CHAIRMAN. More than 100 points.

Senator ADAMS. And there had been a decline in the investment of those purchased—that is, from this wider distribution—from, roughly, this average of \$600 and the high of \$690 down to what would be now, for the same shares, \$125 a share. Was there, following this time, a still further increase in the market value?

Mr. WIGGIN. Yes.

Senator ADAMS. What point did it reach?

Mr. WIGGINS. The high point in the stock?

Senator ADAMS. Yes; just roughly.

Mr. WIGGINS. That was probably a year and a half later. I will get that.

Senator ADAMS. Just roughly. If I may ask a question or two while Mr. Pecora is out, you spoke the other day, or, rather, in your written statement, of the default in the securities that this Chase Securities had sold, which was, roughly, I think, something 5 percent.

Mr. WIGGIN. Right.

Senator ADAMS. Many, if not most of the purchasers of those securities, also had a decline in the investment value of what they purchased.

Mr. WIGGIN. I think that applied to everything that I know of; all railroad stocks, all bank stocks, all industrial stocks, and every blessed thing.

Senator ADAMS. There is a single exception. Take the man who bought the bank stock, as a stockholder. He saw his stock go down

from, say, \$600 or \$700, to \$125. The stockholder in the Chase Securities Co. saw his stock go down very rapidly.

Mr. WIGGIN. There was no other stock, you understand, just the bank stock.

Senator ADAMS. The double stock.

Mr. WIGGIN. Yes.

Senator ADAMS. The purchaser of the securities which the Chase Securities Co. sold saw those securities go down very rapidly, but, during all this time, Mr. Wiggin, the man who had money on deposit in the Chase National Bank was able to get 100 cents on the dollar for every dollar he had on deposit.

Mr. WIGGIN. That is right, sir.

Senator ADAMS. I am just wondering if, perhaps, this conclusion might be drawn, to which the banker ought not to object—that the only man, during this period of financial stress who was fortunate, was the man who had money on deposit in a good bank.

Mr. WIGGIN. You are entirely right, Senator. The man who had any investments saw the value of those investments shrink, and shrink, and shrink. The man who kept his cash, and had it in a good bank, had no shrinkage.

Senator ADAMS. There is another distinction. The Chase Securities Co. operated quite differently from the bank. The depositor in the bank brought his money in. He had reserves that were set up which were very substantial—I imagine, some four or five hundred million dollars as against your two billion of deposits.

Mr. WIGGIN. At that time; yes, sir.

Senator ADAMS. He had in addition a stockholder's liability, which I gather from the stockholders that have been mentioned here, was a collectible liability of another \$200,000,000. But the Chase Securities Co., on the other hand, if they sold the purchaser a bond or sold him stock—I don't know whether they dealt in stock at all or not—there was no responsibility back of that; that is, the purchaser took the whole risk?

Mr. WIGGIN. Exactly, just as if he bought them from John Smith or any other banking house.

Senator ADAMS. That is, there was a wide difference, then, in the attitude of the men to whom the Chase Securities Co. appealed to purchase this marketable stuff, and the men who came and put their money in as depositors in the bank?

Mr. WIGGIN. Yes. It is a little hard to compare the depositors in the bank with the others.

Senator ADAMS. I understand that, but you had, roughly, the same set of stockholders, which the stock certificates tied together, and you had a pretty substantial guarantee as to deposits. What percent of the depositors, if any, were paid interest in the bank?

Mr. WIGGIN. A very large proportion. I do not know as to the number.

Senator ADAMS. There was some income in the way of interest to the depositors?

Mr. WIGGIN. Yes, sir.

Senator ADAMS. I saw in some statistics that I was reading the other day that in the closed banks in this country the depositor has ultimately received nearly 70 percent of his money out of the closed



banks, and I gather that the stockholder in an open bank has seen his stock shrink from 600 to 125. In other words, the depositor in the closed bank is in a more fortunate position than the stockholder in the open bank, on the average.

Mr. WIGGIN. Well, it does not quite gee, on that reasoning, Senator, for this reason, that 70 percent of what the bank owed was in the closed bank, whereas the depositor in the open bank gets 100 percent.

Senator ADAMS. I am distinguishing between the stockholder in the open bank and the depositor in the closed bank.

Mr. WIGGIN. Oh, yes.

Senator ADAMS. The depositor that we have talked about so much is really in a more favorable position than the stockholder in the open bank.

Mr. WIGGIN. You are entirely right.

Senator COUZENS. Did you get the figures that I asked for yesterday as to what the Securities Company actually sold?

Mr. WIGGIN. I think so. (After conferring with associates.) I am advised that they telephoned New York for them and they are working on them. They have worked all night, and they will send them as soon as obtainable.

Senator COUZENS. All right; no hurry.

The CHAIRMAN. Now you cannot pay interest on deposits?

Mr. WIGGIN. No, sir.

The CHAIRMAN. Do you think that is a good provision in the law?

Mr. WIGGIN. Well, I doubt it. It has yet to be demonstrated.

Mr. Conboy wants me to correct my statement there. We can pay interest on time deposits.

The CHAIRMAN. Yes; on time deposits.

Senator ADAMS. How high did the interest rates run which your bank paid the depositors, the highest rate?

Mr. WIGGIN. During what period, Senator?

Senator ADAMS. I am thinking, of course, of the speculative period.

Mr. WIGGIN. It has varied from year to year according to conditions. At the time the present law was passed I think they were paying one half of 1 percent.

Senator ADAMS. During the examination by the committee one witness testified that one of the concerns being investigated paid as high, I think, as 14 percent on some moneys placed with them; and I was wondering if a bank such as yours indulged at all in that competition for funds?

Mr. WIGGIN. I don't think so. As a matter of fact, the rates on deposits are always fixed by agreement with neighboring banks through the clearing-house association. The most recent rate they paid, I think, was one half of 1 percent, and it had been up as high as perhaps 1 percent in the last 2 or 3 years, and had been up as high as 2 percent in the last 10 years.

Senator ADAMS. Did your bank handle call money at all?

Mr. WIGGIN. In large amount; yes, sir.

Mr. CONBOY. The rates paid on call money were not on deposits but on loans. The 1 percent and the one half percent were on daily balances of deposit accounts.

The CHAIRMAN. Brokers' loans went up as high as 20 percent, did they not?

Mr. WIGGIN. Yes, sir.

The CHAIRMAN. That, of course, you do not favor?

Mr. WIGGIN. I think it has a bad effect—those high fluctuations in interest rates. It shows an unhealthy condition.

Senator ADAMS. One of the arguments for preventing the payment of interest that was presented in the committee in considering the banking bill was that the high interest rates and the payment of interest at all on demand deposits tended to draw money from the active industries of the country into the speculative field in New York.

Mr. WIGGIN. You asked, Mr. Chairman, for the high price on Chase Bank stock during the history of this. Two hundred and eighty-seven was the high price for the present stock.

Senator ADAMS. That would be multiplied by 5 to put it in terms of the original stock?

Mr. WIGGIN. Yes.

The CHAIRMAN. That was after the split?

Mr. WIGGIN. That is after the split, and after certain stock dividends which would probably change that ratio. It is a little hard to figure that, Senator. We will have it figured if you like.

Senator ADAMS. That is sufficient for my purposes. I was trying to get a rough estimate as to the shrinkage to the stockholders.

Mr. WIGGIN. Nine hundred and eighty, I think, was the price they gave us of that stock—980 to 125.

Senator ADAMS. Do you happen to have a rough estimate as to the gross year's income of the Chase National Bank?

Mr. WIGGIN. You mean, in ordinary times?

Senator ADAMS. Yes.

Mr. WIGGIN. I have that; yes.

Mr. PECORA. Would it be possible for you or your associates some time later in the day to ascertain and tell the committee how many shares of the stock of the Chase National Bank and the Chase Securities Corporation were actually transferred of record between September 21, 1927, and April 18, 1928; in other words, during the life of this joint account?

Mr. WIGGIN. I think we can get that for you, sir.

Mr. PECORA. Incidentally, I would suggest that you get the same information with regard to the other periods of time covered by the three other joint accounts, which you undoubtedly know about.

Mr. WIGGIN. Very well. I will get those other things, too, very soon, Senator Adams.

Mr. PECORA. Now, the profits that were derived from the operations of this joint account, which terminated on April 18, 1928, were, I presume, distributed in equal proportions on the termination of the account, among the four syndicate members?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Immediately upon the termination of that account was another joint account entered into by the same members for the purpose of trading in the stock of the Chase National Bank and the Chase Securities Corporation?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What was the purpose of the formation of that syndicate?

Mr. WIGGIN. The same as the other.

Mr. PECORA. Well, what was it?

Mr. WIGGIN. I must remember just what I said before. It was for the distribution of stock, increased distribution and increased number of shareholders.

Mr. PECORA. Was a wider distribution actually effected through the operation of the first account?

Mr. WIGGIN. I should think so.

Mr. PECORA. Have you anything to definitely inform you of that fact?

Mr. WIGGIN. Oh, yes; we can give you the exact figures on the number of shareholders on different dates.

Mr. PECORA. Was any agreement in writing, either in the form of a letter or in any other form, entered into by the participants in this second syndicate that was formed on April 18, 1929?

Mr. WIGGIN. Yes, sir.

Mr. CONBOY. April 18, 1928.

Mr. PECORA. 1928; yes. Have you a copy of any such letter or writing?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Will you produce it?

Mr. WIGGIN. Yes [producing a paper].

Mr. PECORA. Is it the same, Mr. Bisbee?

Mr. BISBEE. Yes.

Mr. PECORA. I show you what purports to be a photostatic reproduction of a letter dated April 18, 1928, addressed to Messrs. Potter & Co., and I ask you if you recognize that as being a true and correct copy of such a letter, constituting an agreement defining the terms on which this syndicate was organized on April 18, 1928.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The letter referred to, dated April 18, 1928, addressed to Potter & Co., was received in evidence as Committee Exhibit No. 10 of October 19, 1933, and was read to the Committee by Mr. Pecora.)

Mr. PECORA. The letter reads as follows:

APRIL 18, 1928.

MESSRS. POTTER & Co.,

New York, N. Y.

GENTLEMEN: We confirm that we have this day formed a 4-4 account in which Blair & Co., Inc., McClure, Jones & Co., yourselves and ourselves each have a one-fourth interest for the purchase and sale of stock of The Chase National Bank and Chase Securities Corporation.

The account has today purchased 355 shares at \$483.084 per share. It may also trade in such stock in the market with the understanding that as a result of such trading, the account shall not be long at any one time more than 1,800 shares..

It is our understanding that of the stock in the account 50 percent is to be carried by Blair & Co., Inc., and 50 percent by ourselves, and that we are to charge the account at the end of each month 5 percent interest per annum for carrying.

The account shall run for a period of 60 days from April 18, 1928, but may be further extended by mutual consent of all the members.

Kindly confirm that the above is in accordance with your understanding.

Yours very truly,

\_\_\_\_\_, Secretary.



Mr. PECORA. How many shares were purchased for this account during its life?

Mr. WIGGIN. 59,522.

Mr. PECORA. And what did they cost?

Mr. WIGGIN. \$50,180,175.30.

Mr. PECORA. How long did this account last?

Mr. WIGGIN. Until April 9, 1929.

Mr. PECORA. And were all those 59,522 shares resold by the syndicate within that time?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. What was the total consideration that the syndicate received on the resale of these shares?

Mr. WIGGIN. \$50,734,935.72.

Mr. PECORA. That resulted in a profit of how much?

Mr. WIGGIN. \$554,760.42.

Mr. PECORA. And that profit on the termination of the account was distributed in equal proportions among the four syndicate members, was it not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. The stock of the bank had been split 5 for 1 during the period of this account, had it not?

Mr. WIGGIN. Not during the period of this account, I think, Mr. Pecora. There was a split, and I will give you that date. I do not think it came at this time. That was July 1, 1929, the split.

Mr. PECORA. Oh, that was after. I notice in the letter marked "Committee's Exhibit 10" of this date, the letter of April 18, 1928, sent to Messrs. Potter & Co., setting forth the terms and conditions of this syndicate, that 70 percent of the stock to be purchased was to be carried by the Metpotan Co. and the other 50 percent by Blair & Co. That meant that the Metpotan Co. and Blair & Co. advanced the moneys necessary to acquire these fifty-nine thousand-odd shares that were purchased by this account, did it not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Where did the Metpotan Co. get the funds that it advanced for this operation?

Senator ADAMS. While they are getting that information: I notice in this letter, exhibit 10, that it recites the first purchase by this new syndicate of a certain number of shares at \$483 a share. That would indicate a recession in price from the time of the closing of the former syndicate?

Mr. WIGGIN. I have forgotten what that price was, Senator, on the closing.

Senator ADAMS. I am assuming the average under the former purchase was \$600. I gather that the operations of this syndicate, or something which operated at the same time, evidently raised the price of the stock, because the average purchase price of these 59,000 shares was approximately \$800.

Mr. WIGGIN. The price undoubtedly advanced during that period.

Senator ADAMS. The operation of the syndicate you think had something to do with that?

Mr. WIGGIN. You never can tell whether the syndicate rode on somebody else's enthusiasm or not.

Senator ADAMS. They were not reluctant, however, to share that enthusiasm?

Mr. WIGGIN. No.

The CHAIRMAN. What did you say was the average price?

Senator ADAMS. About \$800.

The CHAIRMAN. That was the cost to them?

Senator ADAMS. Yes.

Mr. WIGGIN. The answer, Mr. Pecora, to your question as to where did the Metpotan get the money to pay for 50 percent of this account they carried, is that they used their own resources to such an amount as they had and borrowed the balance from the Chase Securities Corporation.

Mr. PECORA. What proportion of the total moneys that the Metpotan had to lay out for these transactions did it have to borrow from the Chase Securities Corporation? Tell me approximately.

Mr. WIGGIN. Of course this is a running account, and the amounts changed from day to day, you understand.

Mr. PECORA. Yes.

Mr. WIGGIN. At the close of the year, December 31, 1927, the Metpotan Co. was borrowing from Chase Securities Co. \$3,235,000, and at the close of the year 1928 the Metpotan Co. was borrowing from the Chase Securities Co. \$3,461,000. I have no way of telling what percentage that was of the total account.

The CHAIRMAN. Did the Metpotan Co. borrow from the Chase Bank?

Mr. WIGGIN. At this time; no, sir.

Mr. PECORA. Why was it deemed advisable or preferable to have the Metpotan Securities Corporation go into these two joint accounts instead of having the Chase Securities Corporation itself go into them?

Mr. WIGGIN. I don't know. Legally I suppose they could do it just the same.

Mr. PECORA. So I understand. Now, I want to know why the Chase Securities Co. directly did not participate in these two syndicate accounts but rather had its wholly owned subsidiary, the Metpotan Co., do so.

Mr. WIGGIN. I think purely for convenience, Mr. Pecora.

Mr. PECORA. What convenience was served?

Mr. BISBEE. May I make a suggestion, Mr. Pecora? I think that probably the guiding reason was to avoid the Chase Securities buying and selling its own stock.

Mr. PECORA. Well, was that deemed an inadvisable thing to do by the Chase Securities Corporation?

Mr. BISBEE. It would have required frequent consideration as to the state of its surplus and whether or not it was investing beyond the amount of its surplus, which was avoided by having transactions through another corporation.

Mr. PECORA. But it appears that the corporation that was chosen to act in the place and stead and for the account of the Chase Securities Corporation was a wholly owned subsidiary of the Chase Securities Corporation and that its resources were insufficient to finance its end of these transactions. So I do not see how convenience was served under those circumstances.

Mr. BISBEE. Well, I did not say "convenience"; I said it was to avoid the consideration of that question frequently.

Senator ADAMS. Mr. Wiggin, is it not a rather remarkable result in these two syndicate operations that one of them deals in 22,000 shares, an aggregate of over \$13,000,000, and the net change in its result is about a half of 1 percent in profit; the other deals in a \$50,000,000 transaction with only 1 percent profit, while at the same time in this second transaction the stock showed a variation which ran from \$483 to over \$800? That is a rather careful riding of the horse, isn't it?

Mr. WIGGIN. Well, you understand, Senator, they did not buy a big amount and then wait till the end. They just traded in and out all the time.

Senator ADAMS. Would it not rather indicate that they bought and sold about the same day?

Mr. WIGGIN. Probably. Very likely.

Mr. PECORA. Was that engaging in the process of what has been termed a "churning of the market"?

Mr. WIGGIN. I do not think so. I do not think there were any—I know there were no imaginary sales, no fictitious sales. It was all straight purchasing and straight selling.

Mr. PECORA. Well, according to your answer to Senator Adams' question, the transactions that were consummated by these two accounts which had the same syndicate members involved buying and selling at virtually the same time. That is so, is it not, Mr. Wiggin?

Mr. WIGGIN. Same days, undoubtedly.

Mr. PECORA. Is that not a scheme for "churning the market", and producing an activity that would stimulate the prices?

Mr. WIGGIN. I think the market was a God-given market.

Mr. PECORA. What is that?

Mr. WIGGIN. I think it was a God-given market.

Senator ADAMS. Are you sure as to the source?

Mr. WIGGIN. No, sir.

Mr. PECORA. God-given market, did you say?

Senator COUZENS. That is a new one.

Mr. PECORA. Was it God-given because the price of the stock went up nearly 400 or more points during the life of these two accounts?

Mr. WIGGIN. The market in bank stocks was just like the market in other stocks, as you know, in 1928-29. There developed a great demand for stocks, a great demand for securities. That applied to bank stocks just the same as everything else.

Mr. PECORA. I believe that Napoleon said that "God is on the side that has the heaviest artillery." In this case apparently it was on the side of the Chase Bank and its affiliates.

Senator COUZENS. Did they not have the heaviest artillery in dollars?

Mr. BISBEE. That is unfair to the public, Senator.

Senator ADAMS. Mr. Wiggin, were the operations of this second syndicate largely board operations or were they to a certain extent over-the-counter operations?

Mr. WIGGIN. Almost entirely over-the-counter. You see, it was off the stock exchange after January 1928.



Senator ADAMS. So that all of this second syndicate's operations took place after it went off the board?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Are you familiar with a trading account that was participated in by the Metpotan Corporation with Dominick & Dominick and McClure, Jones & Co. and the Shermar Corporation to operate in the shares of the Chase National Bank, which account, I understand, was formed on or about July 19, 1929?

Mr. WIGGIN. I know there is such an account, and I will endeavor to get the information as it is asked for.

Mr. PECORA. Who were the managers of that syndicate?

Mr. WIGGIN. Dominick & Dominick.

Mr. PECORA. That is a large stock brokerage house, is it not?

Mr. WIGGIN. It is a banking house doing a stock commission business and I think dealing in bonds.

Mr. PECORA. And it holds memberships in the New York Stock Exchange?

Mr. WIGGIN. I think so.

The CHAIRMAN. Does it do a commercial banking business and receive deposits?

Mr. WIGGIN. No, sir. No; I don't think so.

The CHAIRMAN. It is hardly a banking house then.

Mr. PECORA. Can you produce a letter or a copy thereof addressed to the Chase Securities Corporation under date of July 19, 1929, signed by Dominick & Dominick?

Mr. CONBOY. Let us see it, Mr. Pecora.

(Mr. Pecora handed document to Mr. Wiggin, who examined it and other documents and conferred with associates.)

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I show you what purports to be a photostatic reproduction of such a letter and I ask you if you know it to be a true and correct copy of such a letter.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be received in evidence and entered on the record.

(Letter from Dominick & Dominick to Chase Securities Corporation dated July 19, 1929, was thereupon designated "Committee Exhibit No. 11, October 19, 1933.")

Mr. PECORA. The letter is as follows, written on the letterhead of Dominick & Dominick, 115 Broadway, New York [reading]:

JULY 19, 1929.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK CAPITAL STOCK PAR  
VALUE \$20—TRADING ACCOUNTS

CHASE SECURITIES CORPORATION,  
New York City.

DEAR SIRS: We are forming an account, of which we shall be the managers, with full discretionary powers as such, and in which we shall participate, for the purpose of trading in the capital stock of The Chase National Bank of the City of New York. The account shall be on the basis of 25,000 shares and will become operative when participations aggregating 25,000 shares have been received by us.

As managers we have obtained on behalf of the account options to purchase all or any part of 80,000 shares of said capital stock of The Chase National Bank of the City of New York at the following prices:

Twenty thousand shares at \$210 per share, 10,000 shares at \$215 per share, 10,000 shares at \$220 per share, 10,000 shares at \$225 per share, 10,000 shares at \$230 per share, 10,000 shares at \$235 per share, 10,000 shares at \$240 per share; said options to continue in full force and effect to and until the close of business on January 22, 1930, but in no event beyond the termination of the trading account.

The account will terminate at the close of business on January 22, 1930, but we as managers reserve the right in our discretion to extend it for a further period of 30 days or to terminate the account at an earlier date.

As managers we shall have the sole management and entire conduct of the business and affairs of the account, with all the usual powers, including the right on behalf of the account to make or procure loans and to pledge the obligations of the account participants therefor, to pay all commissions and expenses of every nature, and for the account to purchase, sell, sell short, repurchase, resell, or hold shares of the capital stock of The Chase National Bank of the City of New York, to such an amount, at such prices and in such manner as we may deem advisable, and generally to act in all respects as in our opinion may be to the best interests of the account, provided only that the account shall at no time be short or own or be committed for an amount of stock in excess of 25,000 shares.

Notwithstanding our relations as managers, we shall enjoy as participants in this account all the rights and benefits and be subject to all the liabilities hereby respectively granted to and imposed upon other participants.

We shall in no way be liable for any error of judgment, or mistake of law or fact, or failure of any party contracting with us to live up to his agreement, nor shall we be liable except for our own failure to exercise good faith.

The failure of any participant to adhere to the terms of this agreement shall in no respect relieve the other participants from their account obligations.

It is understood that this agreement shall bind and benefit the several parties and their respective heirs, executors, administrators, successors, and assigns.

At our option as managers each participant shall take up and pay for in full or margin to our satisfaction his pro rata share of stock held by the account and shall meet his other account obligations, if any, upon call by us. Stock so taken up and paid for during the life of the account shall be for carrying purposes only, and shall be subject to call by the account managers at any time.

No partnership relations shall arise herefrom. At the expiration of the account we as managers shall distribute the stock and/or cash remaining in our hands among the participants pro rata in the proportion which the number of shares of their respective participations bears to 25,000 shares. The participants shall share pro rata in the said shares and in the profits or losses of the account, after allowing for all expenses incurred by the managers, and the apportionment and distribution of the said shares, profits or losses, shall be conclusive upon the participants.

As compensation for our services in forming and managing this account we shall receive a sum equivalent to 10 percent of the net profit. We shall also receive a commission of 50 cents a share on purchases and sales of stock made by us in the market for the account.

It is also understood that from time to time during the period of the account the respective participants will be offered the opportunity by us to take down stock from the account at such price or prices per share as we as managers in our discretion may fix and determine, and subject to such terms and conditions as we shall prescribe.

Any participant taking down stock pursuant to such opportunity will be allowed a selling commission to be fixed by us at the time, but in no event less than \$2 per share, such selling commission to be payable within 30 days after the termination of the account; it being understood, however, that in our discretion we may cancel said commission with respect to any such stock as is repurchased by us in the market during the period of the account at or below the price at which it was originally taken down by the participants.

In accordance with the understanding between us, we have reserved for you in this account a participation of 5,000 shares.

Please confirm your acceptance of this participation by signing and returning to us the enclosed duplicate of this letter.

Very truly yours,

DOMINICK & DOMINICK, Managers.

In the lower left-hand corner at the end of the letter this inscription: "Confirmed and accepted, Chase Securities Corporation"—is that "J. C. Andersen"?

Mr. CONBOY. Yes, sir.

Mr. PECORA. "J. C. Andersen, vice president."

Now, is this such an account as you would commonly call a pool?"

Mr. WIGGIN. I do not think so.

Mr. PECORA. Well, how would you characterize it in a phrase?

Mr. WIGGIN (after conferring with associates). I would call it trading account, just as it describes itself there.

Mr. PECORA. You understand the term "pool account" as applied to a stock market trading account?

Mr. WIGGIN. I have heard it used.

Mr. PECORA. And as you have heard it used what does it denote to you?

Mr. WIGGIN. It is usually used, I think, in connection with stock-exchange business and denotes an association of a large number of companies or individuals for purchasing certain securities.

Mr. PECORA. Only for purchasing?

Mr. WIGGIN. No; I think purchasing and selling.

Mr. PECORA. Purchasing and selling?

Mr. WIGGIN. Purchasing and selling.

Mr. PECORA. In other words, for operating in the market in a certain security or securities?

Mr. WIGGIN. I think so.

Mr. PECORA. In what respect, then, does a pool differ from a trading account?

Mr. WIGGIN. I think in size usually and number of people connected with it.

Mr. PECORA. Is that the only difference?

Mr. WIGGIN. Maybe other differences. I cannot describe them.

Mr. PECORA. You cannot think of any other differences now, can you?

Mr. WIGGIN. No, sir.

Mr. PECORA. So that a pool differs from a trading account in that the pool is comprised of a larger number of persons than is a trading account? Is that a correct paraphrasing of your statement of the difference?

Mr. WIGGIN. Of course, we are just expressing opinions and guessing at what these things mean, and it is a little embarrassing to try and guess what the description of the pool is.

Mr. PECORA. Well now, you have said you have heard from the term "pool" used. You have told us what it denoted, meant to you, and you said that this particular account, the one that was formed under the terms and conditions of the letter marked "Committee's Exhibit 11", was not a pool but was a trading account. I am merely seeking your own definitions or distinctions.

Mr. WIGGIN. I am just trying to find out—let's see, what is the question?

Mr. PECORA. I will put another question to you.

Mr. WIGGIN. All right.



Mr. PECORA. If this so-called trading account, the terms and conditions of which are evidenced by the letter marked "Committee's Exhibit 11", had been composed of a larger number of participants than the number that did compose it, would you then have called it a pool instead of a trading account?

Mr. WIGGIN. No; I don't suppose we would. Perhaps it should have been.

Mr. PECORA. Perhaps what?

Mr. WIGGIN. I don't think we would have called it a pool.

Mr. PECORA. Would it represent what you understand to be a pool?

Mr. WIGGIN. Not exactly; no.

Senator COUZENS. Don't you like the name "pool?"

Mr. WIGGIN. No.

Senator COUZENS. I thought you were shying away from it.

Mr. WIGGIN. You are right. I don't like the name "pool."

Mr. PECORA. Then if this account had been formed by a number of participants that would comply with your definition of a pool you still would not call it a pool, even though it were a pool?

Mr. WIGGIN. I would not like to call it a pool, no, sir.

Mr. PECORA. What is there offensive about the term "pool", Mr. Wiggin, that causes you to shy away from it?

Mr. WIGGIN. Just the reputation of the word.

Mr. PECORA. Just the reputation of the word?

Mr. WIGGIN. Yes.

Mr. PECORA. Well, does it connote something that is reprehensible?

Mr. WIGGIN. It does in some people's mind; yes.

Mr. PECORA. Reprehensible in what respect?

Mr. WIGGIN. I don't know. I don't know, but there is that feeling against the use of the word "pool."

Senator COUZENS. Is that for the same reason that some people shy away from politicians?

Mr. WIGGIN. It may be, Senator.

Senator GOLDSBOROUGH. Better ask him to tell you what a politician is.

Senator COUZENS. He probably cannot define that any better than he can a pool.

Mr. PECORA. Hasn't somebody defined it as "a live statesman?"

Senator ADAMS. I have never heard it just that way. I have heard it the other way around.

Mr. PECORA. Who were all the participants in this trading account evidenced by committee's exhibit 11?

(Mr. Wiggin examined documents and conferred with associates at length.)

The CHAIRMAN. Let us go ahead as fast as we can. We are losing a lot of time.

Mr. BISBEE. We have trunks of evidence here, Senator, some of which we have to consult to get these answers.

Mr. WIGGIN. Mr. Pecora, when the account was organized it was Chase Securities and Dominick & Dominick. Dominick & Dominick later associated with themselves some other people. That was their selection, and we did not know who they were until a few days ago. Now do you want that information?

Mr. PECORA. Yes; we want to know who the other participants were in this trading account.

The CHAIRMAN. You said McClure, Jones & Co. You have given that.

Mr. WIGGIN. Chase Securities' participation was reallocated to Metpotan and the Shermar Corporation.

Mr. PECORA. In what proportions?

Mr. WIGGIN (after consultation with associates). One quarter to the Shermar Corporation and three quarters of it to the Metpotan Corporation.

Mr. PECORA. Why was that done, Mr. Wiggin?

Mr. WIGGIN (addressing an associate). Why was it done? [After further conference with associates]. Because Metpotan did not have enough stock to give options on the full amount, and they needed Shermar to make out the total amounts.

Mr. PECORA. Did not the Chase Securities Corporation have enough stock for that purpose?

Mr. WIGGIN. No, sir.

Mr. PECORA. In this case why was the joint account entered into by the Chase Securities Corporation directly instead of by its wholly owned subsidiary, the Metpotan Co.?

Mr. WIGGIN. I am advised that it was because the letter from Dominick & Dominick was addressed to the Chase Securities Corporation, and instead of having it changed they accepted it and turned it over—instead of having a new letter sent to the Metpotan Co.

Mr. PECORA. Is that the only reason?

Mr. WIGGIN. Apparently.

Mr. PECORA. Had there not been any conferences or discussions of the subject of organizing this trading account prior to the sending of this letter of July 19, 1929?

Mr. WIGGIN. Oh, undoubtedly.

Mr. PECORA. With whom had those conferences been held by Dominick & Dominick as representing the Chase Securities Corporation?

Mr. WIGGIN. Undoubtedly with the president of the company and the vice president of the company.

Mr. PECORA. In those conferences or discussions was it held out by the Chase Securities Corporation that it would enter into this trading account of its own name?

Mr. WIGGIN. I, of course, do not know what was said, but there was no reason for doing it that way.

Mr. PECORA. I assume that Dominick & Dominick in writing this letter knew what they were doing and were carrying out what had been agreed upon previously as the result of these conferences? That would not be a violent assumption, would it?

Mr. WIGGIN. Not a violent assumption at all, sir.

Mr. PECORA. Do you still advance the explanation you have already given as the only reason why the Chase Securities Corporation in its own name became a participant in this trading account?

Mr. WIGGIN. I think that is the only reason.

Mr. PECORA. It was the liability of the Chase Securities Corporation which was pledged as a participant in this trading account, was it not?

Mr. WIGGIN. Yes, sir; they in turn passing it on and taking protection from the others.

Mr. PECORA. Well, was it so passed on by the Chase Securities Corporation to the Metpotan and to the Shermar Corporation with the knowledge and consent of Dominick & Dominick and the other participants in this trading account?

Mr. WIGGIN. I do not think they did; no. I do not think that the question was ever brought up.

Mr. PECORA. Was there any reason for withholding knowledge of that fact from the managers of this trading account or the other participants therein?

Mr. WIGGIN. Not the slightest. And you understand we did not know anything about the other participants.

Mr. PECORA. Have you here any minute book of the Chase Securities Corporation or its board of directors at which action was taken which resulted in the assigning or transferring by the Chase Securities Corporation of its interest in this trading account to the Metpotan Co. and to the Shermar Corporation?

Mr. WIGGIN. No, sir.

Mr. PECORA. Was not that action taken as the result of a resolution of the board of directors of the Chase Securities Corporation?

Mr. WIGGIN. No, sir; I do not think so. I think it was done in the ordinary course of business by the officers.

Mr. PECORA. Was it not ever reported to the board of directors of the Chase Securities Corporation by the officers?

Mr. WIGGIN. Undoubtedly.

Mr. PECORA. Can you find any minute of such a report having been made to the board of directors in the minute books?

Mr. WIGGIN. There was no record at all of it.

Mr. PECORA. Were such transactions consummated in that informal fashion and with no written record of it in the minute books of the corporation?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Well, this was a pretty large transaction, was it not?

Mr. WIGGIN. We had many, many large transactions. The same course was followed.

Mr. PECORA. Well, what are minutes kept for?

Mr. WIGGIN. I do not know how to answer that question, sir.

Mr. PECORA. Answer it according to your best knowledge. What is the purpose of corporations keeping minute books if large and important transactions undertaken in behalf of the corporation are not recorded therein?

Mr. WIGGIN (after conferring with associates). I am advised that by resolution the directors had given the officers full authority to buy and sell securities.

Mr. PECORA. That does not answer my question. I asked you for what purpose the corporations keep the minute books if it was not to record therein important transactions undertaken by and in behalf of the corporations?

(Mr. Wiggin conferred with his associates.)

Senator ADAMS. I have said here before that it was perfectly proper for a witness to obtain facts and information, but to obtain opinions is I think quite at variance from that.



Mr. PECORA. I agree with you, Senator Adams. Where a witness is asked a question that calls for his opinion or judgment and knowledge, why, he ought to be able to give it without a huddle with others.

Mr. CONBOY. You are asking for an opinion as to why minutes of directors are kept.

Mr. PECORA. Well, Mr. Wiggin is a member of many corporations and an officer and director of something like 59 of them, as I recall the testimony he gave day before yesterday. I should think from that experience he would be able to tell us, without consulting somebody else's judgment or opinion about it.

Senator ADAMS. If he does not have any let him so state.

Mr. CONBOY. You asked the purpose for which minutes of the board of directors are kept; but you are trying to associate it with particular transactions of the corporation.

Mr. PECORA. I am asking him the general question of his knowledge or belief or opinion as to what the purpose is of corporations keeping minute books of their proceedings if important transactions are not to be recorded in them. I have not yet had an answer to that question.

Mr. WIGGIN. Well, you are connecting it with this transaction. I tried to answer it showing you that this transaction was one authorized by the directors; one of any similar transaction of the kind that was authorized by the directors.

Mr. PECORA. Is there any record of any minute or resolution in the minute book of the Chase Securities Corporation that shows that?

Mr. WIGGIN. I am so informed.

Mr. PECORA. Where is it?

Mr. WIGGIN. We will have to get it for you. I do not know the date of it—of the general authorization.

Mr. PECORA. What is that, sir?

Mr. WIGGIN. We will get it for you.

Mr. PECORA. Did you have any conversations or discussions with respect to the Shermar Corporation acquiring a part of the interest of the Chase Securities Corporation in this trading account with any officers of the Chase Securities Corporation?

Mr. WIGGIN. Undoubtedly.

Mr. PECORA. With whom did you have such conversations or discussions?

Mr. WIGGIN. Of course I cannot recall just who I talked to at that time, but undoubtedly the conversations were with the president of the corporation and the vice-president of the corporation, with Mr. Freeman and with Mr. Andersen.

Mr. PECORA. What was the substance of those conversations insofar as they related to the granting to your corporation, called the Shermar Corporation, of a 25 percent interest in the participation of the Chase Securities Corporation in this trading account?

Mr. WIGGIN. They wished to enter into this transaction with Dominick & Dominick, and they did not have enough stock of their own to do it.

Mr. PECORA. Well, is that all that was said? Did they ask you if you know where enough stock could be obtained?

Mr. WIGGIN. No; they asked if Shermar would participate.

Mr. PECORA. Did they know how many shares of stock the Sher-mar Corporation had?

Mr. WIGGIN. I do not think they knew how many, but they knew they had some.

Mr. PECORA. Did they know who the Shermar Corporation was composed of and who its stockholders were?

Mr. WIGGIN. I do not know that they knew who its stockholders were, but they knew I was interested in it.

Mr. PECORA. Did they know that it was virtually a corporation owned by you and your family entirely?

Mr. WIGGIN. I think so.

Mr. PECORA. Now, I presume the Chase Securities Corporation went into this trading account because it expected to make profits out of it? Is that a fair assumption?

Mr. WIGGIN. Undoubtedly hoped to make profits and they went into it to dispose of their stockholdings.

Mr. PECORA. To dispose of their stockholdings?

Mr. WIGGIN. To dispose of their holdings of Chase National Bank stock.

Mr. PECORA. Was that one of the purposes that the Chase Securities Corporation had in going into this trading account?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Why could it not dispose of those in the open market itself and without participating in a trading account with others?

Mr. WIGGIN. Well, I do not know.

The CHAIRMAN. Why did they want to dispose of their stock in The Chase Bank?

Mr. WIGGIN. They did not buy the stock for the purpose of keeping it. They bought the stock to increase the number of shareholders and to stabilize the market at different times. Not because they wanted to make a permanent investment.

Mr. PECORA. Did the market at this time require stabilization?

Mr. WIGGIN. I do not think so. I do not think that they bought at this time for that. This is selling.

Mr. PECORA. Well, this was a general trading account, was it not, under which the managers had the right to buy and sell and sell short and borrow and lend stock?

Mr. WIGGIN. Yes, sir. But their option meant that that stock was to be sold.

Mr. PECORA. How many shares of the bank stock did the Chase Securities Corporation at that time desire to sell which it actually owned, that induced you to enter into this trading account?

Mr. WIGGIN. The stock was owned by the Metpotan Co.

Mr. PECORA. How many shares did the Chase Securities Corporation desire to sell at that time, whether or not the shares of the bank were owned by the Chase Securities Corporation or by its wholly owned subsidiary, the Metpotan?

Mr. WIGGIN. The option was on 80,000 shares. Metpotan only had 41,000 shares. So they gave the option on 40,000 shares and asked Shermar for an option on 40,000 shares.

Mr. PECORA. You said a few minutes ago that the Chase Securities Corporation entered into this trading account with Dominick &

Dominick and others in order to enable it to sell shares of the Chase National Bank stock which it owned, which it now turns out were owned by the Metpotan Co. How many shares of the bank stock did the Chase Securities Corporation or its wholly owned subsidiary, the Metpotan Co., want to sell at that time which impelled them to go into this trading account?

Mr. WIGGIN. They wanted to sell 40,000 shares of the stock that they held themselves.

Mr. PECORA. In order to do that why was it necessary for the Chase Securities Corporation to give to Dominick & Dominick for the purposes of this trading account an option on 80,000 shares?

Mr. WIGGIN. Dominick & Dominick were ready to undertake the 80,000 shares, and Shermar was entirely willing to sell 40,000 shares.

Mr. PECORA. Did you participate on behalf of the Shermar Corporation in the conferences that were held between Dominick & Dominick and the officers of the Chase Securities Corporation prior to the agreement evidenced by the letter dated July 19, 1929?

Mr. WIGGIN. No, sir.

Mr. PECORA. Well, if you did not, then how did it happen that the Chase Securities Corporation knowing that its subsidiary only owned 40,000 shares entered into an option agreement with Dominick & Dominick to supply Dominick & Dominick with 80,000 shares?

Mr. WIGGIN. Because the Chase Securities Corporation came to me and asked me if I would give an option on 40,000, which the corporation was very glad to do.

Mr. PECORA. What was the purpose that the Chase Securities Corporation had in mind when it entered into this trading account in July 1929? Can you tell us that?

Mr. WIGGIN. I think to get a larger distribution of the stock and to sell their own stock.

Mr. PECORA. How many shares of their own stock did they want to sell? All that they had?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And that was 40,000 shares?

Mr. WIGGIN. 41,000.

Mr. PECORA. 41,000; that were in the name of the Metpotan Co.?

Mr. WIGGIN. Owned by the Metpotan Co.

Mr. PECORA. In order to do that why was it necessary to enter into any trading account with anybody else?

Mr. WIGGIN. They did not know how to sell it.

Mr. PECORA. The Chase Securities Corporation did not know how to sell stock that was being traded in every day in the open market?

Mr. WIGGIN. I do not think they did. I think that the reason that they went into this Dominick & Dominick operation was so that Dominick & Dominick would sell it for them; find the customers.

Mr. PECORA. Did they have an equal ignorance with regard to buying stock?

Mr. WIGGIN. I do not think that required so much education.

Mr. CONBOY. It is like buying groceries. It takes an organization to sell them, but you buy them as you need them.

Mr. PECORA. Well, it is an interesting statement to hear, Mr. Wiggin, that the Chase Securities Corporation did not know how to sell stock.



Mr. CONBOY. He has explained to you that they had not any such organization for distribution.

Mr. PECORA. What organization did Dominick & Dominick have for distribution of the stock of the Chase National Bank that was not available to the Chase Securities Corporation?

Mr. WIGGIN. I do not know how complete their organization was.

Mr. PECORA. Do you not know that these purchases and sales made for the benefit of this trading account were all made in the open market?

Mr. WIGGIN. I do not know where they bought it or where they sold it all.

Mr. PECORA. Well, do you know how to sell shares of stock which you or your private corporations own?

Mr. WIGGIN. No, sir.

Mr. PECORA. You have an abysmal ignorance about that.

Mr. WIGGIN. I simply use a broker. I would not know how to sell it.

Mr. PECORA. You would use a broker. And there are hundreds of them within the Wall Street district?

Mr. WIGGIN. Correct.

Mr. PECORA. Could not the Chase Securities Corporation use a broker, too?

Mr. WIGGIN. Certainly. It did.

Mr. PECORA. Do you know any reason why they did not do it?

Mr. WIGGIN. But they did.

Mr. PECORA. But they used the brokers in this case, namely, Dominick & Dominick, as participants in a trading account that involved the sale of many more shares than those owned by the Chase Securities Corporation or its subsidiary, did they not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Then why could they not have used the broker merely to sell their own shares and not enter into a trading account with others?

Mr. WIGGIN. Perhaps they could.

Mr. PECORA. Whenever you or any of your private corporations want to distribute shares of stock that you own or which your corporations own, do you always go into a trading account with others in order to enable you to dispose of your holdings, or do you engage a broker to dispose of your holdings in the usual routine fashion in the open market?

Mr. WIGGIN. Usually engage a broker in the usual routine fashion.

Mr. PECORA. Well, why could not the Chase Securities Corporation have done it in this case?

Mr. WIGGIN. Perhaps they did not think it would be successful.

Mr. PECORA. Have you a copy of the option agreement by which these 80,000 shares of the bank stock were optioned to Dominick & Dominick for the purposes of this trading account?

Mr. WIGGIN. Do you mean the one that was just put in evidence?

Mr. PECORA. I have not put any in evidence yet.

Mr. CONBOY. Read that question.

(The question was thereupon read by the reporter as above recorded.)

Mr. WIGGIN. Is not the option comprised in that letter?

Mr. PECORA. No. Are you referring to the letter sent by Dominick & Dominick to the Chase Securities Corporation under date of July 19, 1929?

Mr. WIGGIN. Yes.

Mr. PECORA. That which is marked Committee's Exhibit No. 11 in evidence?

Mr. WIGGIN. Yes.

Mr. PECORA. Well, that is not the option agreement, is it?

Mr. WIGGIN. I am not sure.

Mr. PECORA. This letter merely refers to the fact that Dominick & Dominick as managers of the trading account have obtained options.

Mr. WIGGIN. Well then, there must be another letter.

Mr. PECORA. Let us have that other letter.

Mr. WIGGIN. Mr. Pecora, there is another letter, and you have a copy of it.

Mr. PECORA. What is the date of it?

Mr. WIGGIN. The same date.

Mr. CONBOY. It is just a 1-page letter.

Mr. PECORA. I have not got it.

Mr. WIGGIN. We can give you a copy of it. Would you like to see it, Mr. Pecora?

Mr. PECORA. Yes, sir.

(Mr. Wiggin handed same to Mr. Pecora.)

Mr. PECORA. I offer in evidence letter produced by the witness, and I ask that it be spread on the record. We do not have a copy of this, and I will read this letter in evidence.

Mr. WIGGIN. And may we give you a photostatic copy so as to keep our files complete?

Mr. PECORA. Yes. But I will read this letter now in evidence so that we can return it to you.

Mr. WIGGIN. They say they have given you a copy of that letter, Mr. Pecora.

The CHAIRMAN. Let it be admitted and placed in the record.

(Letter dated New York, July 19, 1929, from Dominick & Dominick to Chase Securities Corporation was received in evidence, marked "Committee Exhibit No. 12 of October 19, 1933.")

Mr. PECORA. The letter has been marked in evidence as Committee's Exhibit No. 12 of this date, and reads as follows: On the letterhead of—

DOMINICK & DOMINICK,  
NEW YORK, July 19, 1929.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK CAPITAL STOCK (PAR  
VALUE \$20)

#### TRADING ACCOUNT

CHASE SECURITIES CORPORATION,  
*New York City.*

DEAR SIRS: We are forming an account of which we shall be the managers with full discretionary powers as such, and in which we shall participate, for the purpose of trading in the capital stock of The Chase National Bank of the City of New York; said account to be on the basis of 25,000 shares, and to terminate at the close of business on January 22, 1930, with the right on our part, however, in our discretion, to extend the account for an additional 30 days or to terminate it on any earlier date.

We hereby beg to confirm that in consideration of the formation by us of said account, you have extended to us for and on behalf of the account, the

right to purchase from you at any time and from time to time on or before the close of business on January 22, 1930, but in no event after the termination of said account, all or any part of 80,000 shares of capital stock of The Chase National Bank of the City of New York, at the following prices: 20,000 shares at \$210 per share, 10,000 shares at \$215 per share, 10,000 shares at \$220 per share, 10,000 shares at \$225 per share, 10,000 shares at \$230 per share, 10,000 shares at \$235 per share, and 10,000 shares at \$240 per share.

It is also understood that pending the exercise by us of this option and during its existence, upon our request, you will loan to us on behalf of the account, all or any part of 10,000 shares of said stock at the market price prevailing at the time any part of the said shares is borrowed by us.

Please confirm that the above is in accordance with your understanding and is the agreement between us, by signing and returning to us the enclosed duplicate of this letter.

Very truly yours,

DOMINICK & DOMINICK.

Confirmed and agreed to:

CHASE SECURITIES CORPORATION,  
J. C. ANDERSEN, *Vice President.*

Mr. PECORA. Mr. Wiggin, it would seem by this letter the Chase Securities Corporation actually obligated itself to give an option to Dominick & Dominick covering 80,000 shares of the Chase National Bank stock. Why did it obligate itself to do so by this formal agreement in writing if, as a matter of fact, it did not have anything like 80,000 shares of the stock?

Mr. WIGGIN. They had not wanted to do it for 80,000 shares, but Dominick & Dominick wanted to do it for 80,000 shares, and Shermar Corporation supplied the other 40,000 shares.

Mr. PECORA. Where is there any evidence, other than this agreement, whereby Chase Securities Corporation obligated itself to give an option for 80,000 shares and that Shermar Corporation was to furnish 40,000 shares?

Mr. WIGGIN. There is undoubtedly some letter on that matter.

Mr. PECORA. What was that?

Mr. WIGGIN. I say, there is undoubtedly a letter between Shermar Corporation and Chase Securities Corporation.

Mr. PECORA. Was such a letter in existence July 19, 1929?

Mr. WIGGIN. It was agreed to but the letter was not written.

Mr. PECORA. When was the letter written?

Mr. WIGGIN. August 2d.

Mr. PECORA. I show you what purports to be a photostatic copy of such a letter—

Mr. CONBOY (interposing). Mr. Pecora, we can furnish you, if you haven't it, a photostat of the letter that you have just put in evidence.

Mr. PECORA. All right. I will hand you back the one that you gave me.

Mr. CONBOY. Do you care to have it marked as a committee exhibit in place of the one that you read?

Mr. PECORA. Yes, I will ask the committee reporter to mark it "Committee Exhibit No. 12, October 19, 1933" in place of the one he heretofore marked, which was the original.

(The photostatic copy of the original was so marked, as shown heretofore in this record.)

Mr. PECORA. Mr. Wiggin, I show you what purports to be a photostatic copy of a letter addressed to the Shermar Corporation, dated August 2, 1929. I ask you if this is a true and correct copy of such a letter received by the Shermar Corporation?

Mr. WIGGIN. Yes, sir.



Mr. PECORA. I offer it in evidence and ask that it may be spread on the record.

The CHAIRMAN. Let it be received and so made a part of the record.

(A photostatic copy of a letter dated Aug. 2, 1929, addressed to the Shermar Corporation, was marked "Committee Exhibit No. 13, Oct. 19, 1933", and will be found where read by Mr. Pecora following this introduction.)

Mr. PECORA. The letter has been marked "Committee Exhibit No. 13, October 19, 1933", and reads as follows:

AUGUST 2, 1929.

The SHERMAR CORPORATION,  
New York, N.Y.

GENTLEMEN: Dominick & Dominick have found an account to trade in Bankers Trust Co. receipts for Chase National Bank and Chase Securities Corporation Stock, and we have extended to them the right to purchase from us at any time and from time to time, on or before January 22, 1930 all or any part of 80,000 shares of Chase National Bank and Chase Securities Corporation stock.

We shall thank you to confirm to us that of the 80,000 shares which they have a right to purchase 40,000 shares will be for your account at the following prices: 10,000 shares at \$225 per share; 10,000 shares at \$230 per share; 10,000 shares at \$235 per share; 10,000 shares at \$240 per share.

Kindly confirm that the foregoing is in accordance with your understanding.

Yours very truly,

\_\_\_\_\_, Assistant Treasurer.

There is no signature appearing on this photostatic copy. But I presume it was signed by someone holding the office of assistant treasurer of the Chase Securities Corporation. Isn't that correct, Mr. Wiggin?

Mr. WIGGIN. If you will wait a minute, I will find out. [After consulting an associate.] Yes, sir.

Mr. PECORA. Now, upon receipt by the Shermar Corporation of this letter, Committee Exhibit No. 13, October 19, 1933, did you cause the Shermar Corporation to send to the Chase Securities Corporation a reply thereto in the form of the photostatic copy which I now show you?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I offer that in evidence and ask that it may be spread on the record.

The CHAIRMAN. Let it be received and made a part of the evidence.

(A letter dated Aug. 2, 1929, on the letterhead of the Shermar Corporation was marked "Committee Exhibit No. 14, October 19, 1933", and will be found below where it was read by Mr. Pecora.)

Mr. PECORA. It is on the letterhead of the Shermar Corporation, 20 Pine Street, New York, and is as follows:

AUGUST 2, 1929.

CHASE SECURITIES CORPORATION,  
New York.

GENTLEMEN: We acknowledge receipt of your letter of even date relating to the option given to Dominick & Dominick on Chase stock, and confirm that of the 80,000 shares they have the right to purchase on or before January 22, 1930, the following will be for our account: 10,000 shares at \$225 per share; 10,000 shares at \$230 per share; 10,000 shares at \$235 per share; 10,000 shares at \$240 per share.

Yours very truly,

THE SHERMAR CORPORATION,  
By J. F. WERNERSBACH,  
Treasurer.

Judging by the dates of the last two exhibits, namely, August 2, 1929, in each case, and having in mind the fact that the option agreement given or made between Chase Securities Corporation and Dominick & Dominick for these 80,000 shares which was entered into on July 19, 1929, isn't it a fact that the arrangement made between the Shermar Corporation and Chase Securities Corporation, evidenced by committee exhibits 13 and 14 now in evidence, was made some 2 or 3 weeks after the granting of the option to the 80,000 shares to Dominick & Dominick by Chase Securities Corporation?

Mr. WIGGIN. No, Mr. Pecora. It was all agreed to before they gave the option. I understand the letter from the Chase Securities Corporation to Dominick & Dominick accepting it was sent on July 24, I think it was. Now, the remaining few days between that letter and the other letter I do not understand except that I was away and they may have thought there was no hurry on it. But it was all arranged before that.

Mr. PECORA. Was it all arranged in the three-party conversation participated in by Dominick & Dominick, Chase Securities Corporation, and the Shermar Corporation?

Mr. WIGGIN. I do not think I talked with Dominick & Dominick at all. I think Chase Securities Corporation talked with Dominick & Dominick, and Chase Securities Corporation talked with me, and then made their trade with Dominick & Dominick.

Mr. PECORA. Did Dominick & Dominick ever know, or did they know at any time before the termination of this trading account, some time in 1930, that the Shermar Corporation had entered into this arrangement with Chase Securities Corporation in respect of this option?

Mr. WIGGIN. I do not know whether they did or not.

Mr. PECORA. Have you any reason to believe that they did or did not know, whichever it was?

Mr. WIGGIN. I think they probably knew.

Mr. PECORA. What makes you think they probably knew?

Mr. WIGGIN. It was an open subject. There was no secret about it.

Mr. PECORA. Now, Mr. Wiggin, I notice that the option given to Dominick & Dominick by Chase Securities Corporation, and which in form consists of committee's exhibit no. 12, being this letter of July 19, 1929, options 10,000 of these shares at \$225 a share, another 10,000 shares at \$230 a share, another 10,000 shares at \$235 a share, and another 10,000 shares at \$240 per share, and that these four blocks at these prices represent the highest prices to be paid by Dominick & Dominick under this option agreement for its 40,000 shares that they took down under this option agreement. I also notice that the 40,000 shares, out of the 80,000 shares that your corporation, the Shermar Corporation, agreed to furnish to Chase Securities Corporation to enable it to comply with its option to Dominick & Dominick, for the 80,000 shares, was given at the highest prices. Was there any reason for that?

Mr. WIGGIN. That was to let Chase Securities Corporation, or Metpotan Corporation out first.

Mr. PECORA. And also to let the Shermar Corporation in last, at the highest prices.

Mr. WIGGIN. And to run the risk of not getting rid of it.

Mr. PECORA. And run the risk of not getting rid of it, did you say?

Mr. WIGGIN. Yes.

Mr. PECORA. Did you consider that there was any risk being run by the Shermar Corporation?

Mr. WIGGIN. We doubted very much that they would sell the whole amount.

Mr. PECORA. Was it considered that Chase Securities Corporation, or its subsidiary, Metpotan Corporation, was also running a risk when it entered into this trading account on July 19th?

Mr. WIGGIN. Yes, sir; a risk of not selling.

Mr. PECORA. Well, whatever risk there was. Was it running any risk at all in their opinion?

Mr. WIGGIN. Very little.

Mr. PECORA. Very little risk?

Mr. WIGGIN. But they wanted to sell.

Mr. PECORA. They wanted to sell?

Mr. WIGGIN. I wanted them to have the privilege of selling first.

Mr. PECORA. Was that your sole reason for participating in this option at the four highest unit prices, for the benefit of the Shermar Corporation?

Mr. WIGGIN. It was the last stock. They had to get rid of theirs first.

Mr. PECORA. What risk did you think you were taking?

Mr. WIGGIN. Of not selling it.

Mr. PECORA. Yes.

Mr. WIGGIN. The risk of not selling it.

Mr. PECORA. Were you anxious to sell your stock at that time?

Mr. WIGGIN. I wanted to reduce our holdings.

Mr. PECORA. You had made up your mind to reduce your holdings by 40,000 shares?

Mr. WIGGIN. I made up my mind to reduce my holdings or hoped to do so.

Mr. PECORA. By 40,000 shares.

Mr. WIGGIN. Whatever we could sell.

Mr. PECORA. Why did you undertake such an operation wholly outside, then, of the trading account?

Mr. WIGGIN. Because we wanted Chase Securities Corporation to have an opportunity of disposing of their stock first.

Mr. PECORA. Well, if——

Mr. WIGGIN (interposing). I should have said the Metpotan Corporation.

Mr. PECORA. Yes, the Metpotan Corporation.

Mr. WIGGIN. Yes.

Mr. PECORA. If you had sold your 40,000 shares at the four lowest unit prices, that is, the four lowest prices established by the option agreement of July 19, 1929, would you have sold them at a loss to your corporation?

Mr. WIGGIN. I do not think so.

Mr. PECORA. You still would have made a profit?

Mr. WIGGIN. I think so.

Mr. PECORA. If you had sold anywhere from \$219 to \$220 a share?



Mr. WIGGIN. I would have to make sure, but I am quite sure it would have been at a profit.

Mr. PECORA. Now, was there any other agreement entered into between the Shermar Corporation and Dominick & Dominick that had anything to do with this trading account or this option?

Mr. WIGGIN. Might I have that question read?

Mr. PECORA. Yes, the committee reported will read it for you. (Which was done.)

Mr. WIGGIN. Not that I know of.

Mr. PECORA. What was that?

Mr. WIGGIN. Not that I knew of.

Mr. CONBOY. Mr. Pecora, you say any other agreement between the Shermar Corporation and Dominick & Dominick. There was no agreement between the Shermar Corporation and Dominick & Dominick.

Mr. PECORA. I show you a photostatic copy of a letter addressed to the Shermar Corporation on September 21, 1929, and will ask you to look at it and tell us if you ever saw the original of that letter?

Mr. WIGGIN. This is from whom—if you know?

Mr. PECORA. I presume it is from the Metpotan Corporation.

Mr. WIGGIN. It is undoubtedly, sir.

Mr. CONBOY. From the Metpotan Securities Corporation?

Mr. WIGGIN. It is from Metpotan.

Mr. PECORA. Yes; from the Metpotan Co.

Mr. WIGGIN. That is correct.

Mr. PECORA. Do you recognize this photostatic reproduction which I have shown you to be a true and correct copy of a letter received by the Shermar Corporation under date of September 21, 1929, from the Metpotan Corporation?

Mr. WIGGIN. Correct.

Mr. PECORA. I offer this in evidence and ask that it may be spread on the record of the subcommittee's hearing.

The CHAIRMAN. Let it be received and the committee reporter will make it a part of the record.

(A letter dated September 21, 1929, addressed to the Shermar Corporation, was marked "Committee Exhibit No. 15, October 19, 1933", and will be found further on in the record where read by Mr. Pecora.)

Mr. PECORA. The letter marked "Committee Exhibit No. 15, October 19, 1933", reads as follows:

SEPTEMBER 21, 1929.

THE SHERMAR CORPORATION,  
New York, N.Y.

GENTLEMEN: On July 19th we accepted an interest of 20% or 5,000 shares in an account formed to trade in Bankers Trust Co. receipts for Chase National Bank and Chase Securities Corporation Stock with the understanding that the account would be on the basis of 25,000 shares. Messrs. Dominick & Dominick are managers of the account.

The account will terminate at the close of business January 22, 1930, but the managers reserve the right in their discretion to extend it for a further period of 30 days or to terminate the same at an earlier date.

Dominick & Dominick will receive as compensation for their services in forming and managing the account a sum equivalent to 10 percent of the net profits and they are also to receive a commission of 50¢ per share on purchases and sales of stock made by them in the market.

We are pleased to allot you an interest of 25% of our 20 percent interest in the account and one quarter of any portion of the managers' compensation we may retain for our own account and shall thank you to confirm your acceptance of the same.

Yours very truly,

\_\_\_\_\_, Secretary.

Now, did you, in behalf of the Shermar Corporation, send or cause to be sent to the Metpotan Securities Corporation a letter replying to this letter of September 21, 1929, a photostatic copy of which I show you?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I now offer that in evidence and ask that it may be spread on the record of the subcommittee's hearing.

The CHAIRMAN. Let it be received, and the committee reporter will make it a part of the record.

(A letter on the letterhead of the Shermar Corporation, dated Sept. 24, 1929, addressed to Metpotan Securities Corporation, was marked "Committee Exhibit No. 16, October 19, 1933", and will be found later on in the record where read by Mr. Pecora.)

Mr. PECORA. The letter marked "Committee Exhibit No. 16, October 19, 1933", reads as follows:

THE SHERMAR CORPORATION,  
New York, September 24, 1929.

METPOTAN SECURITIES CORPORATION,  
New York, N.Y.

GENTLEMEN: We acknowledge your letter of the 21st instant, advising us of your acceptance of a 20% interest, or 5,000 shares in an account formed to trade in the Chase National Bank and Chase Securities Corporation Capital Stock, based on a total of 25,000 shares.

We note the details in connection with this account, and hereby confirm our interest in your share of this business to the extent of 25%.

Very truly yours,

THE SHERMAR CORPORATION,  
By J. F. WERNERSBACH,  
Treasurer.

Now, it would appear from these two exhibits that Dominick & Dominick had made some private arrangement with the Metpotan Co. under which the latter was to share in the fees to be paid to Dominick & Dominick as managers of this trading account and also in their commissions, doesn't it?

Mr. WIGGIN. It would appear so; yes, sir.

Mr. PECORA. And in turn it would also appear from these exhibits that the Metpotan Co. gave to the Shermar Co. 25 percent of its interest in the fees and commissions to be paid to Dominick & Dominick as managers of this trading account. That is correct, isn't it?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Do you know why the Metpotan Co. agreed to give your private corporation this share of its participation in the fees and commissions of Dominick & Dominick?

Mr. WIGGIN. No. I think they were entitled to it. They were supplying that share of the stock. They were supplying more than that share.

Mr. PECORA. Weren't you going to be paid for your stock at the top prices provided for by the option agreement?

Mr. WIGGIN. If they took it.

Mr. PECORA. If they took it you were to be paid for it at the top prices provided by the original option agreement covering the 80,000 shares?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And did the Metpotan Co. also think that in addition to the profits your company would make by the sale of those 40,000 shares, it also ought to receive a 25 percent division of its share of Dominick & Dominick's profits and commissions as syndicate managers?

Mr. WIGGIN. Undoubtedly.

Mr. PECORA. Did you think that was a fair arrangement for the Metpotan Co. to make with your corporation?

Mr. WIGGIN. Why, I think the Shermar Corporation was pretty liberal. They put up half of the stock and only got a quarter of the extra commissions.

Mr. PECORA. Why should the Shermar Co. have received any part of the commissions?

Mr. WIGGIN. For supplying a large part of the stocks.

Mr. PECORA. Well, for supplying that stock it was to receive payment in accordance with the option.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, when the Shermar Corporation entered into this arrangement with Chase Securities Corporation, or the Metpotan Corporation, to furnish 40,000 of the 80,000 shares that Chase Securities Corporation had obligated itself to supply to Dominick & Dominick under the original option, nothing was said about sharing in any commissions or profits, was there?

Mr. WIGGIN. Oh, I think undoubtedly there was.

Mr. PECORA. This came as an afterthought, did it not?

Mr. WIGGIN. I don't think so.

Mr. PECORA. Why were the documents evidencing your right to share in that, dated in September of 1929?

Mr. WIGGIN. I don't know.

The CHAIRMAN. The committee will now take a recess until 2:15 p.m.

(Thereupon, at 1:10 p.m. Thursday, October 19, 1933, the committee recessed until 2:15 p.m. the same day.)

#### AFTERNOON SESSION

The hearing was resumed at the expiration of the recess.

#### TESTIMONY OF ALBERT H. WIGGIN, NEW YORK, N.Y.—Resumed

Mr. PECORA. Mr. Wiggin, referring to this trading account that was formed on July 19, 1929, of which Dominick & Dominick were the managers, you were going to look up for us the names of all of the other participants in this trading account. Have you succeeded in ascertaining who they were?

Mr. WIGGIN. Yes. I have a list. You understand that we never knew who they were until a few days ago?

Mr. PECORA. Yes. Who are they?

Mr. WIGGIN. Shall I read it off?

Mr. PECORA. If you will.



Mr. ALDRICH. Mr. Chairman, may I interrupt?

Senator COUZENS. Let the witness answer the question, please.

The CHAIRMAN. Yes; he has a list of names there.

Mr. WIGGIN. Blyth & Co., Inc.; Broomhall, Killough & Co.—

Mr. PECORA. As you give the name of each participant, will you also state, if you can, the interest of such participant in the account?

Mr. WIGGIN. We have not got that, Mr. Pecora. They are all on Dominick's books, and they have not furnished us with that information.

Mr. PECORA. All right.

Mr. WIGGIN. Brown Brothers & Co.; Cassatt & Co.; Clark, Dodge & Co.; Curtis & Sanger; Eastman, Dillon & Co.; W. W. Lanahan & Co.; McClure, Jones & Co.; National Bond and Share Corporation; Potter & Company; Edward B. Smith & Co.; Stone & Webster and Blodget, Inc.; Weld, Grew & Co.; and, you understand, the Chase Securities Corporation and their participants that were reported before the recess; and Dominick & Dominick, of course.

Mr. PECORA. And the Shermar Corporation?

Mr. WIGGIN. Metpotan and Shermar Corporation; yes.

Mr. ALDRICH. May I interrupt for a moment, Mr. Chairman, with a matter that I consider of the greatest importance?

The CHAIRMAN. Yes; if there is no objection.

Mr. ALDRICH. I would like to read into the record an article which appears in one of the Washington papers this morning, headed, "Chase Loan to Cuba Eyed by Senate." It hints of a scandal. The subheading is "Millions Squandered in the Building of Capitol and Great Highway." The article reads as follows:

A campaign by Wall Street influences was directed today toward suppressing a Senate inquiry into the floating of a \$225,000,000 loan by the Chase National Bank to the now defunct Machado government of Cuba.

Investigators for the Senate Banking and Currency Committee have unearthed evidence, in connection with the loan, that may provoke a national sensation. Some of it will reflect upon the State Department.

A series of letters, exchanged between Americans and Cuban officials, in possession of the committee, will furnish the highlights of the inquiry if it is held. These letters relate to negotiation of the loan.

#### BONDS DEFAULTED

Proceeds of the loan were used to erect a \$25,000,000 capitol building in the poverty-stricken city of Habana and to construct a \$200,000,000 central highway boulevard across the island. The bonds, sold by the Chase National to finance the loan, have been defaulted in interest payments.

Officials of the new Grau San Martin government since have charged that millions of dollars were squandered in waste, riotous costs, and graft in the construction of the two projects. They have threatened to prosecute some of the exiled Machado leaders for the part they played in negotiation and expenditure of the loan.

Wall Street influences have fought the inquiry on the ground it would provoke anti-American feeling in the island republic. One New Yorker was said to have warned the committee that the revelations would lead to anti-American riots and attacks on American banks in Havana.

The inquiry was favored by Senator Fletcher (D), of Florida, chairman, and Senator Couzens (R), of Michigan. Leaders of the opposition were not identified. Fletcher said:

"We have not decided whether to hold the inquiry. I think we will and I believe we should."

Couzens said:

"In my judgment, efforts to sidetrack the inquiry will not succeed."

That is all of that article on Cuba.

Now, Mr. Chairman, I assume that the efforts of Wall Street interests to block the inquiry on the Chase loan to Cuba are probably what I said before the executive meeting of this committee yesterday, and what I said to Mr. Pecora several days ago. What I said to Mr. Pecora was this, that as far as my own personal investigation is concerned, I have found nothing which would require this committee to go into the Cuban loan in order to find a foundation for further legislation in regard to the matters which you are investigating. I said to Mr. Pecora, "If you find anything which has the effect of being necessary to be shown, by all means go ahead with it."

At the executive meeting of the committee yesterday I said the same thing; that I had not been able to find anything, myself, which I thought required this committee to go into that loan. Senator Couzens said that he thought a great many things required the committee to go into it. I felt and still feel now that it is a mistake to go into that Cuban loan; but that kind of an exaggerated article is a great deal worse in every possible way than this committee's going into that loan. Obviously it is going to do more harm in Cuba than anything else can—that kind of a statement. As a matter of actual fact, the facts of the matter are these, that in the public works financing for the Republic of Cuba the Chase National Bank and its associates employed about \$80,000,000 consisting of \$20,000,000 for public works,  $5\frac{1}{2}$  serial certificates maturing serially in the years from 1931 to June 1933; \$40,000,000 of public works  $5\frac{1}{2}$  percent gold bonds, due June 30, 1945, and a bank credit of \$20,000,000. All of the serial certificates except \$867,000 principal amount now held by the Chase National Bank and associates, have been paid in full. Interest on all of these obligations to June 30, 1933, has been paid promptly when due. Such balance of the serial certificates amounting to \$867,000 and a bank credit of \$20,000,000 is being carried by the Chase National Bank and associates pending clearing of the existing situation in Cuba. Every bit of this public works financing was paid by the Chase National Bank directly to construction contractors on work certificates approved by the Secretary of Public Works and countersigned by the Secretary of the Treasury of the Republic of Cuba for construction work actually performed by such contractors and accepted by the Cuban Government. Not a dollar was paid to President Machado or any other officer or employee of the Cuban Government or anyone else, directly or indirectly, by way of commission or gratuity.

In view of the existing conditions in Cuba and the delicate relations with this country and because of the danger of publicity being given to distorted or false statements as illustrated by the article which I have just read from, representatives of the Chase National Bank have questioned the wisdom of making the public-works financing the subject of a public hearing before this committee. Any statement or implication that the Chase National Bank or any of its representatives has sought in any way to suppress any facts concerning this financing or any other of the activities in Cuba is false.

I think you ought to go into that immediately and investigate it fully.

The CHAIRMAN. Of course this committee is not responsible for what is in a newspaper statement.

Mr. ALDRICH. I do not think you are responsible for it, Mr. Chairman.

The CHAIRMAN. The reporters did ask me if the committee had decided to go into the Cuban loan, and I said that we had not considered the subject fully yet; we had not got to it, in fact; that there was some question raised as to whether it would be advisable to do it, and that the committee would consider it further, that it had not reached any conclusion.

Mr. ALDRICH. I know, Senator; but ex parte statements of that kind do more harm than any full investigation could do.

The CHAIRMAN. I did not make the ex parte statement.

Mr. ALDRICH. I am not accusing anybody. It is in the newspaper.

The CHAIRMAN. But your reply is that ex parte statements like that overcome the effect of the hearing. I did not make it. I am telling you the statement that I made.

Mr. ALDRICH. I did not say that you did, Mr. Chairman.

The CHAIRMAN. The reporters asked me if we were going into the Cuban situation and the facts with regard to the transactions in Cuba. I said we had not yet decided about that, as to whether we would or would not. One reporter asked me what my own impression was. I said, "I am in favor of doing it, as far as I know now." That is the extent of the conversation I had. I did not know these facts that are stated there, myself. Nobody told me what this paper contained.

Mr. ALDRICH. Mr. Chairman, I think that under the circumstances this committee should investigate the Cuban loan matter.

The CHAIRMAN. We will do as we please about it, Mr. Aldrich, without your dictation.

Mr. ALDRICH. I am sure you will.

The CHAIRMAN. We will take it up when we get to it. That is a matter for the committee to decide, not for you.

Mr. ALDRICH. That is obviously true; but I am simply expressing my own opinion.

The CHAIRMAN. That may be your opinion, and it might be all right for us to stop where we are and leave all these other matters that we are prepared to go on with and take up the Cuban situation if the committee desires to do that. I have no objection to doing it. But I want to say that so far as any indication that this comes from the committee is concerned, it is absurd.

Mr. ALDRICH. Senator, I have made no accusation that it comes from the committee. I simply read the article in the press and stated that in view of the fact that the article has been published, which I think does more harm in every way than any possible investigation by this committee could do, that this committee owes it to the bank to conduct an investigation of the Cuban loan at once.

Senator COUZENS. I move that we proceed in an orderly manner.

The CHAIRMAN. Without objection, that will be done.

Mr. PECORA. How many of the persons or firms that were mentioned by you as the participants in this trading account that was formed on July 19, 1929, are firms or persons who hold seats on the New York Stock Exchange?



Mr. WIGGIN. I am not sure. I think, 11.

Mr. PECORA. At least 11?

Mr. WIGGIN. I think, 11. It may be less, but I think, 11.

Mr. PECORA. In view of the fact that this trading account, according to the letter of July 19, 1929, which is in evidence as exhibit no. 11 of this date, was formed to trade in 25,000 shares of the capital stock of the Chase Bank and the Chase Securities Corporation, why was it necessary to give an option for 80,000 shares to the managers of the trading account?

Mr. WIGGIN (after conferring with associates). Because Dominick & Dominick wanted the option on 80,000 shares.

Mr. PECORA. Do you know why it was necessary, if this account was to trade in 25,000 shares, for the managers of the account to have an option on 80,000 shares?

Mr. WIGGIN. Simply because they wanted it.

Mr. PECORA. What purpose could it serve for the benefit of the trading account or trading syndicate?

Mr. WIGGIN. I do not know how to answer that question.

Mr. PECORA. You mean you cannot answer that question?

Mr. WIGGIN. I do not know how to answer it.

Mr. PECORA. Answer it in your best way.

Mr. WIGGIN. I cannot answer it.

Mr. PECORA. Do you know of any reason why Dominick & Dominick, as managers of this trading account, should have needed an option for 80,000 shares if the account was formed to deal in 25,000 shares?

Mr. WIGGIN. I don't know that they did need it, but they wanted it.

Mr. PECORA. They apparently got it as part of the entire trading operation, did they not?

Mr. WIGGIN. The option, of course, was for a larger amount, as you have pointed out.

Mr. PECORA. The option, of course, was for 80,000 shares?

Mr. WIGGIN. The trading account was for 25,000 shares, and they could make another trading account as it was necessary, as they took up the stock.

Mr. PECORA. But they said in the letter which they addressed to the Chase Securities Corporation on July 19, 1929, that letter being Committee's Exhibit No. 11—

The account shall be on the basis of 25,000 shares and will become operative when participations aggregating 25,000 shares have been received by us. As managers we have obtained on behalf of the account options to purchase all or any part of 80,000 shares of said capital stock of The Chase National Bank of the City of New York at the following prices.

So it would appear from the language employed in this letter that this option for 80,000 shares which Dominick & Dominick acquired from the Chase Securities Corporation was part of the operation for which the trading account was formed, was it not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, why was it necessary, in order to operate the trading account of 25,000 shares, for the managers of the account to get options of 80,000 shares?

Mr. WIGGIN. Because Dominick & Dominick wanted it. I don't think there is any—

Mr. PECORA (interposing). How could it serve to benefit the conduct of the trading account's operations?

Mr. WIGGIN. This meant that they did not want their associates to have at one time any more than the 25,000 shares, but their option was for a larger amount.

Mr. PECORA. Do you think it was ethical practice for the Chase Securities Corporation or any of its subsidiary corporations to enter into any agreement to sell short shares of the Chase National Bank?

Mr. WIGGIN. I think it was entirely proper.

Mr. PECORA. You think it is entirely proper?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. You say that recognizing that the Chase Securities Corporation was the securities or investment affiliate of the Chase National Bank and had the same body of stockholders?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Do you think it would have been proper, irrespective of any legal inhibition, for the Chase National Bank itself to have engaged in a trading operation involving the sales of its shares short?

Mr. WIGGIN. Of the bank?

Mr. PECORA. Yes.

Mr. WIGGIN. No, sir.

Mr. PECORA. When this was done by the Chase Securities Corporation in effect was it not being done also for the bank?

Mr. WIGGIN. No, sir.

Mr. PECORA. Why not?

Mr. WIGGIN. Because they are two distinct organizations owned by the same people but not one owned by the other.

Mr. PECORA. But you say that the Chase Securities Corporation was organized and created at the instance of the bank to enable that, because the bank could not engage in the investment and securities business?

Mr. WIGGIN. Yes, sir; I explained the reasons for the organization of the Chase Securities.

Mr. PECORA. Then what was an improper or unethical or unwise thing, apart from the question of the legality, for the Chase National Bank to do, was all right and proper and ethical for its securities affiliates to do?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Why was it a proper thing in your opinion for the Chase Securities Corporation to sell short the shares of the bank?

Mr. WIGGIN. I don't know that they did so.

Mr. PECORA. It entered into an agreement whereby that could have been done, did it not?

Mr. WIGGIN. It did.

Mr. PECORA. And so far as the Chase Securities Corporation knew on July 19, 1929, when it entered into this agreement with Dominick & Dominick as managers of the account, that kind of a transaction was within the power of the managers of the account to consummate?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. You think that was a proper thing?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Why?

Mr. WIGGIN. It gave a buying power to the stock when necessary.

Mr. PECORA. What is that?

Mr. WIGGIN. Provided a buying power for the stock when necessary.

Mr. PECORA. It provided a buying power for the stock when necessary. What do you mean by that?

Mr. WIGGIN. I mean if they had sold more than they had there was a supporting purchasing power for that stock in the market.

Mr. PECORA. A short-selling transaction is a speculative transaction essentially, is it not?

Mr. WIGGIN. Not necessarily.

Mr. PECORA. Is it an investment transaction?

Mr. WIGGIN. No, sir.

Mr. PECORA. Isn't it a speculative transaction, then?

Mr. WIGGIN. I don't think so.

Mr. PECORA. What kind of a transaction is it, if it is not investment and not speculative? How would you characterize it?

Mr. WIGGIN. I don't consider that it was an investment. I don't consider that it was a speculation. I think it was a very desirable position for the securities company to be in for the benefit of the stockholders of the bank.

Mr. PECORA. How do you denominate or characterize or call or designate such a transaction if it is not an investment and it is not a speculation?

Mr. WIGGIN. It was a trading account.

Mr. PECORA. Well, speculation might be a trading account, or speculation might be indulged in through a trading account, too, might it not?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. You think a short-selling transaction is a trading account?

Mr. WIGGIN. I think this was in the trading account; yes, sir.

The CHAIRMAN. We have conferred. Mr. Aldrich, about this situation and your suggestion. It happens that tomorrow, Friday, we have a number of witnesses subpoenaed here, and we cannot very well go into it tomorrow, but we will take it up, I am authorized to announce, and will set Monday at 10 o'clock.

Mr. ALDRICH. Thank you, Senator. I think that is very satisfactory.

The CHAIRMAN. All right; Monday at 10 o'clock we will go into this Cuban matter that has been mentioned.

Mr. PECORA. Mr. Wiggin, subsequent to the giving of the option for 8,000 shares to Dominick & Dominick for the purpose of this trading account, was another option given to Dominick & Dominick by anybody, to your knowledge?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. When was it given and by whom?

Mr. WIGGIN (after examination of documents and a conference). Yes, sir.

Mr. PECORA. No; the question was, When was such additional option given and by whom?

Mr. WIGGIN. September 9, Chase Securities Corporation to Dominick & Dominick.



Mr. PECORA. Was that given in writing?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Have you the original or a copy of the agreement?

Mr. WIGGIN. We have a photostatic copy here of the letter. Do you have that there? It is dated September 9.

Mr. PECORA. Will you let me see your copy of that letter of September 9?

(Mr. Hargreaves handed document to Mr. Pecora.)

Mr. PECORA. I offer in evidence the copy of the letter produced by the witness.

The CHAIRMAN. It will be received and entered in the record.

(Letter dated September 9, 1929 from Dominick & Dominick to Chase Securities Corporation was thereupon designated "Committee Exhibit No. 17, October 19, 1933.")

Mr. PECORA. The letter marked "Exhibit 17", written on the letter-head of Dominick & Dominick, 115 Broadway, New York, reads as follows (reading):

SEPTEMBER 9, 1929.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

CAPITAL STOCK—PAR VALUE \$20

TRADING ACCOUNT

CHASE SECURITIES CORPORATION,  
New York, N.Y.

(Attention of Mr. McKee.)

DEAR SIR: We confirm that you have ceded to us as Managers of the above account additional options to purchase from you, at any time or from time to time prior to the close of business, January 22nd, 1930, Capital Stock of The Chase National Bank of the city of New York and Chase Securities Corporation (represented by Bankers Trust Co. receipts) as follows:

5,000 at \$230 a share, 5,000 shares at \$235 a share, 5,000 shares at \$240 a share, and 5,000 shares at \$245 a share.

These options are exercisable whole or in part as we may call them.

While the options are in force you agree to loan us at our request all or any part of twelve thousand (12,000), shares of stock at the then prevailing market price, as we may call from time to time. We agree as Managers that the account shall not be short more than approximately 10,000 shares of stock at any time.

Please confirm that the above is in accordance with your understanding by signing and returning to us the enclosed duplicate of this letter.

Very truly yours,

DOMINICK & DOMINICK.

Confirmed and accepted: Chase Securities Corporation, by the initials "W. L. McK.—V.P."

There is an inscription in handwriting at the bottom of the letter reading as follows:

Spoke to Mr. E. K. Davis September 9 and agreed that on stock they were borrowing but had not exercised options we were to receive the cash dividend.

The signature I cannot make out.

Does it not appear from that that the managers had sold the bank stock short some time prior to September 9, 1929, although on that date it still had unexercised options on 45,000 shares?

Mr. WIGGIN. I don't see that this would indicate that, Mr. Pecora.

Mr. PECORA. I don't hear you, Mr. Wiggin.

Mr. WIGGIN. I am sorry. I don't see that this would indicate that.

Mr. PECORA. Doesn't it indicate that there was a short position in that account prior to the date of that letter?

Mr. WIGGIN. I don't see that it does.

Mr. PECORA. Well, now, who actually furnished the 20,000 shares of stock that were optioned under that letter of September 9, 1929?

Mr. WIGGIN. The Shermar Corporation.

Mr. PECORA. Were they all actually called for by the managers of the account?

Mr. WIGGIN (after conferring with associates). I am advised that 10,000 were taken up and 10,000 were not.

Mr. PECORA. At what prices were the 10,000 shares that were taken up so taken up?

Mr. WIGGIN. At the first two prices.

Mr. PECORA. Twenty-five thousand shares at \$230 and 5,000 at \$235?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And those 10,000 shares were furnished to your corporation by the Shermar Corporation?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. How did the Shermar Corporation happen to furnish those 10,000 shares, in view of the fact that the option was given to the managers of the Chase Securities Corporation?

Mr. WIGGIN. The Chase Securities Corporation did not have 10,000 shares.

Mr. PECORA. Then why did the Chase Securities Corporation again on September 9, 1929, knowing that it did not have those shares, enter into a formal commitment with Dominick & Dominick to give them an option on those shares at stated prices?

Mr. WIGGIN. Because they were protected on their option.

Mr. PECORA. How were they protected?

Mr. WIGGIN. By Shermar Corporation.

Mr. PECORA. Was there an arrangement or understanding before the Chase Securities Corporation entered into that option agreement with the Shermar Corporation to give them that protection?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And how was that arrangement or understanding evidenced in writing, if it was evidenced in writing?

Mr. WIGGIN. Haven't you got that, Mr. Pecora?

Mr. CONBOY. September 10, 1929.

Mr. PECORA. I show you photostatic copies of two letters. Will you please look at them and tell us if they constitute true and correct copies of the writings or letters which evidenced that understanding?

Mr. WIGGIN (after examining documents). Yes, sir.

Mr. PECORA. I offer those two letters in evidence as separate exhibits, the first one I so offer being the one addressed to the Chase Securities Corporation, the other one being the one addressed to the Shermar Corporation.

The CHAIRMAN. Let them be admitted and entered in the record.

(Letter dated Sept. 10, 1929, from Dominick & Dominick to Chase Securities Corporation was thereupon designated "Committee Exhibit No. 18, October 19, 1933.")

(Letter dated Sept. 10, 1929, from Chase Securities Corporation to Shermar Corporation was thereupon designated "Committee Exhibit 19, Oct. 19, 1933.")

Mr. PECORA. The first of these two letters, marked "Committee's Exhibit 18", reads as follows—I won't read the caption [reading]:

SEPTEMBER 10, 1929.

CHASE SECURITIES CORPORATION,  
New York, N.Y.

DEAR SIRs: We wish to advise you that we as managers of the above account have obtained on its behalf additional options to purchase at any time or times prior to the close of business January 22, 1930, all or any part of 20,000 shares of capital stock of the Chase National Bank of the city of New York, and Chase Securities Corporation (represented by Bankers Trust Co., receipts), as follows:

5,000 shares, at \$230 a share; 5,000 shares, at \$235 a share; 5,000 shares, at \$240 a share; 5,000 shares, at \$245 a share.

"Beginning today the account shall not be short more than approximately 10,000 shares of stock at any time.

Very truly yours,

*Managers.*

I presume it was signed by Dominick & Dominick.

The second letter, marked "Committee's Exhibit 19," reads as follows: (Reading.)

September 10, 1929.

SHERMAR CORPORATION,  
New York, New York.

GENTLEMEN: We are enclosing copy of a letter dated September 9, 1929, received from Messrs. Dominick & Dominick in connection with additional options to purchase at any time or from time to time, prior to January 22, 1930, 20,000 shares of Chase Stock.

We shall thank you to confirm that the arrangements as outlined in such letter have been entered into by us with Messrs. Dominick & Dominick in your behalf.

Yours very truly,

\_\_\_\_\_  
*Assistant Treasurer.*

I presume this letter was signed by assistant treasurer of the Chase Securities Corporation?

Mr. WIGGIN. I assume so.

Mr. PECORA. Did the Shermar Corporation send, by way of acknowledgement or reply to this letter that I have just read, any letter to the Chase Securities Corporation or the Metpotan Corporation?

Mr. WIGGIN. Yes, sir.

Mr. CONBOY. We have not turned up any reply to that.

Mr. PECORA. We do not have a copy of it, either.

Mr. CONBOY. Apparently we have none in our file.

Mr. PECORA. From the fact that you have not in the files of the Shermar Corporation any copy of a letter sent by way of reply to this letter, committee's exhibit 19, is it fair to conclude, Mr. Wiggins, that reply was made orally and not in writing?

Mr. WIGGIN. I don't know. It may have been that. May have been some memoranda okayed. I don't know how.

Mr. PECORA. Options apparently were given to Dominick & Dominick as managers of this trading account by the Chase Securities



Corporation for an aggregate of 100,000 shares, of which only 90,000 were exercised by Dominick & Dominick.

Mr. WIGGIN. That is as I understand it.

Mr. PECORA. And of those 90,000 shares with respect to which Dominick & Dominick exercised their option, your corporation, called the Shermar Corporation, furnished 50,000 shares under the option agreement?

Mr. WIGGIN. That is right, sir.

Mr. PECORA. And were paid for those shares at the prices set forth in the various option agreements?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. When was this trading account closed, Mr. Wiggin?

Mr. WIGGIN. I will find out. [After conferring with associates.] November 11, 1929.

Mr. PECORA. And do you know whether there were any profits that accrued to the trading account from its entire operations?

Mr. WIGGIN. I will inquire. [After conference with associates.] Yes, sir.

Mr. PECORA. What was the aggregate amount of such profits?

Mr. WIGGIN (after conferring with associates). We can only give you the amount that came to the Chase Securities participants. We do not know the whole profit.

Senator ADAMS. But you can readily figure that if you know the relative contributions of the Chase Securities to the pool—or rather I should say the trading account?

Mr. WIGGIN. Yes; but we haven't the percentages, you know, of the participants in the trading account. All we have is the name. We could only guess, and I don't want to do that.

Senator ADAMS. There is no penalty for guessing as long as it is so labelled. After all, don't you figure, Mr. Wiggin, most of the things we do are guesses?

Mr. WIGGIN. Yes; I am afraid they are.

Senator ADAMS. If we restrict ourselves and eliminate all guesses, why, there would not be any trading accounts conducted.

Mr. BISBEE. There would not be much left of life, either.

Mr. WIGGIN. Was there any question unanswered?

Mr. PECORA. Do you know what the total profit was?

Mr. WIGGIN. No; I do not know what the total profit was. We can tell what share was given to Chase.

Mr. PECORA. They do not know what the respective interests were of the other participants, Senator Adams.

You said before you knew their names and you learned those names only within the last few days from Dominick & Dominick.

Senator ADAMS. But, Mr. Pecora, they knew this, that they contributed 50,000 shares out of 90,000.

Mr. PECORA. But the trading operations involved many more shares than that, something like 176,000 shares.

Senator ADAMS. But there were actually 90,000 sold, disposed of.

Mr. PECORA. Drawn down under these option accounts.

Senator ADAMS. Yes. They contributed 50,000. So that their share, representing five ninths of it, would give you what the total was, even though you could not distribute it.

Mr. PECORA. No, it would not.

Mr. BISBEE. No, no; not of the profit.

Mr. CONBOY. Senator, I do not want to disagree with you.

Senator ADAMS. It would not be the first time someone has disagreed with me.

Mr. CONBOY. It would be the first time that you and I disagreed. I do not think your basis of computation is accurate, and I do not think we can give it to you; but we can tell you what Chase Securities Corporation got, and you can draw the inferences that you think are justified.

Senator ADAMS. That would allow us to guess.

Mr. CONBOY. Allow you to guess. But if you wanted to have a good guess then you would want to know what these other facts are as suggested by Mr. Pecora, and we have not got those. We cannot tell you what they are.

Mr. PECORA. Probably I could expedite this examination if I state that I received from Dominick & Dominick a statement showing the operations or trades in this account from the time of its formation in July 1929 to the time of its termination on November 11, 1929.

Mr. CONBOY. What are the dates that are covered by that question, Mr. Pecora? From when?

Mr. PECORA. July 19, 1929, to November 11, 1929. It showed that there was a total of 92,096 shares bought under options and 80,710 shares bought in the open market, making a total of shares acquired for the purposes of the trading account of 172,806, and that there were sold in the market 115,483 shares, and 55,227 shares were distributed to participants on the termination of the account. And that the profits accruing to the trading account from these transactions amounted to \$1,452,314.68.

Senator GOLDSBOROUGH. Is that the first account?

Mr. PECORA. No; the third one, Senator.

I also received from Dominick & Dominick a statement showing the distribution made of these profits aggregating \$1,452,314.68 to the various participants on November 11, 1929.

I will offer in evidence, subject to any correction that any party may seek to make, the photostatic reproductions of the statements of the transactions furnished to us by Dominick & Dominick.

Mr. CONBOY. You say "subject to correction." Of course, we did not prepare the statements.

Mr. PECORA. No. I say subject to correction by Dominick & Dominick or anybody else. I said anybody interested.

Mr. CONBOY. I do not know what facilities we would have. Will you furnish us with a copy of them?

Mr. PECORA. I will be very glad to do so. We only have one set of photostatic reproductions, but we would be very glad to let you look at them overnight.

Mr. CONBOY. Thank you. Is that something that was prepared for you?

Mr. PECORA. Prepared for us by Dominick & Dominick. These are their tabulations.

Mr. CONBOY. Did they only give you photostats or did they give you the originals?

Mr. PECORA. They gave us photostats.

The CHAIRMAN. Does that include any more shares than the 80,000?

Mr. PECORA. Yes, Senator.

Mr. CONBOY. May we look at those so that we may acquaint ourselves with them if we are examined about them?

Mr. PECORA. Yes. (Handing same to Mr. Conboy.) They are offered in evidence.

The Chairman. The statements will be admitted and spread upon the record.

(Statement from Dominick & Dominick showing the operations in the account from July 19, 1929 to November 11, 1929, was received in evidence, marked "Committee Exhibit No. 20 of October 19, 1933", and is here printed in the record in full as follows:)

COMMITTEE EXHIBIT No. 20, OCTOBER 19, 1933

*Chase National Bank Trade*

Aug. 5, 1929, 10,000 shares Chase Securities Corporation, at 210--	\$2,100,000.00
Aug. 8, 1929, 10,000 shares Chase Securities Corporation, at 210--	2,100,000.00
Aug. 8, 1929, 5,000 shares Chase Securities Corporation, at 215--	1,075,000.00
Aug. 9, 1929, 2,500 shares Chase Securities Corporation, at 215--	537,500.00
Aug. 14, 1929, 2,500 shares Chase Securities Corporation, at 215--	537,500.00
Aug. 19, 1929, 10,000 shares Chase Securities Corporation, at 220--	2,200,000.00
Aug. 19, 1929, 10,000 shares Chase Securities Corporation, at 225--	2,250,000.00
Aug. 27, 1929, 5,000 shares Chase Securities Corporation, at 230--	1,150,000.00
Aug. 27, 1929, 625 shares Chase Securities Corporation, stock dividend on above.	
Sept. 5, 1929, 5,000 shares Chase Securities Corporation, at 230--	1,150,000.00
Sept. 5, 1929, 625 shares Chase Securities Corporation, stock dividend on above.	
Sept. 10, 1929, 6,768 shares Chase Securities Corporation, at 235--	1,590,480.00
Sept. 10, 1929, 846 shares Chase Securities Corporation, stock dividend on above.	
Sept. 19, 1929, 3,232 shares Chase Securities Corporation, at 208. 888-----	675,126.02
Sept. 19, 1929, 6,500 shares Chase Securities Corporation, at 213. 333-----	1,386,664.50
Sept. 20, 1929, 3,500 shares Chase Securities Corporation, at 213. 333-----	746,665.50
Sept. 20, 1929, 2,500 shares Chase Securities Corporation, at 230-----	575,000.00
Sept. 23, 1929, 2,500 shares Chase Securities Corporation, at 230-----	575,000.00
Sept. 23, 1929, 5,000 shares Chase Securities Corporation, at 235-----	1,175,000.00
Total, 92,096 shares-----	19,829,936.02
80,710 shares bought in the market-----	18,521,341.13
Sept. 11, dividend 9,291 shares account short-----	9,291.00
Expenses:	
Aug. 28, check, Bowne & Co., circular-----	\$688.20
Sept. 12, check, Bowne & Co., composition-----	10.48
	698.68
Balance-----	1,452,314.68
172,806 shares-----	39,813,581.51
16,462 shares, to participants, at 222-2-----	3,620,858.40
11,730 shares, to participants, at 227-2-----	2,638,686.96
16,991 shares, to participants, at 240-2-----	4,043,042.36
10,044 shares, to participants, at 241-2-----	2,400,033.80
Total, 55,227 shares-----	12,702,621.52
115,483 shares, sold in market-----	27,110,959.99
Aug. 23, 1929, 2,096 shares, 12½ percent stock dividend account short, 16,768 shares.	
Total, 172,806 shares-----	39,813,581.51



(Statement from Dominick & Dominick showing distribution made of profits aggregating \$1,452,314.68 to the various participants on November 11, 1929 was received in evidence, marked "Committee Exhibit No. 21", of October 19, 1933, and is here printed in the record in full as follows:)

## COMMITTEE EXHIBIT No. 21, OCTOBER 19, 1933

*Chase National Bank trade*

1929

Nov. 11. Checks for profit on partic to the following:

Dominick & Dominick, 5,000 shares	\$261,416.64
Chase Securities Corporation, 5,000 shares	261,416.64
Potter & Co., 1,250 shares	65,354.16
McClure, Jones & Co., 1,250 shares	65,354.16
Broomhall Killough & Co., 1,250 shares	65,354.16
National Bond and Share Corporation, 1,250 shares	65,354.16
W. W. Lanahan & Co., 1,000 shares	52,283.33
Weld Grew & Co., 500 shares	26,141.66
Clark Dodge & Co., 1,000 shares	52,283.33
Edward B. Smith & Co., 1,000 shares	52,283.33
Cassatt & Co., 1,000 shares	52,283.33
Stone Webster & Blodget, 1,000 shares	52,283.33
Brown Brothers & Co., Inc., 1,000 shares	52,283.33
Eastman Dillon & Co., 2,000 shares	104,566.66
Curtis & Sanger, 500 shares	26,141.66
Blyth & Co., Inc., 1,000 shares	52,283.33
Check—Dominick & Dominick 10 percent commis-	
sion for acting 12 managers	145,231.47
	<hr/> 1,452,314.68 <hr/>

Nov. 9. Balance----- 1,452,314.68

Mr. PECORA. According to Committee Exhibit No. 21, in the distribution of the profits which this trading account made the Chase Securities Corporation received the share thereof amounting to \$261,416.64. Does that conform to your record?

Mr. CONBOY. Yes.

Mr. PECORA. Mr. Wiggins, will you tell us how much of a net profit accrued to the Shermar Corporation from the sale of the 50,000 shares that it supplied under these options to the managers of this trading account?

Mr. WIGGIN. We cannot tell, because it went into an account in which there were many transactions. We can tell how much of this \$261,000 was passed on, but we cannot tell what the profit was to Shermar on those particular 50,000 shares.

Mr. PECORA. You mean you cannot tell at this time, but you have records which will inform you of that, have you not?

Mr. WIGGIN. If you bought 1,000 shares and sold the same 1,000 shares, you could tell what the profit was on a thousand shares. But if you have a long-running account, stock bought at various times, at various prices, and then sell part of it it, you cannot tell what the profit was.

Mr. PECORA. Have not you or the Shermar Corporation any records from which it could be ascertained how much profit accrued to the Shermar Corporation from the sale of the 50,000 shares which it furnished to Dominick & Dominick as managers of this trading account?

Mr. WIGGIN. No, sir. That is impossible.

Mr. PECORA. Why not?

Mr. WIGGIN. Because you cannot tell which stock was sold at these prices. I mean you have a great many shares; some are bought at one price, some at another. Then you sell. Now which stock are you going to take as this particular sale?

Mr. PECORA. Is it not usual to take the stock that was first acquired?

Mr. WIGGIN. Well, perhaps we could do that.

Mr. PECORA. The first stock acquired is regarded as the first stock sold?

Mr. WIGGIN. You mean for income-tax purposes?

Mr. PECORA. For income-tax purposes.

Mr. WIGGIN. That is a little different from trying to find out what the profit is in an account. We could tell the first purchases in the account, find out what they cost, and then see what these proceeds were, and then figure the difference. But we have not got it yet, and we will have to go into that in detail to get it.

Mr. PECORA. How long will it take you to get that?

Mr. WIGGIN. Oh, I do not think it would take very long.

Mr. PECORA. How much of the \$261,416.64 that Dominick & Dominick distributed to the Chase Securities Corporation on November 11, 1929, did the Shermar Corporation receive?

Mr. WIGGIN. \$65,354.

Mr. PECORA. Did it in addition to that received from the Metpotan Corporation any moneys on account of the interest which the Metpotan Corporation gave the Shermar Corporation out of the fees and commissions which Dominick & Dominick received as managers of this account?

Mr. WIGGIN. We received part of the management fee, but no part of the commissions.

Mr. PECORA. How much did you receive on that account?

Mr. WIGGIN. \$9,682.10.

Mr. PECORA. That makes a total of \$75,036.10, does it not?

Mr. WIGGIN. Correct.

Mr. PECORA. From the time of the commencement of this trading account on or about July 19, 1929, up to the date of the first big crash, so called, in the stock market in October 1929, can you tell the committee whether the daily quotations in the market of the stock of the Chase National Bank were generally upward? I believe the date of the big crash was October 26, 1929, was it not?

Senator ADAMS. October 29, 1929.

Mr. BISBEE. Another one in November. The first one was in October.

Mr. WIGGIN. The trend was upward until about the 22d of August. The dividend came off there. It sold ex-dividend, which makes the price a little lower. And the trend was upward in September, up to the 21st of September, and then the trend was downward until about the 5th of October, and then it was up until about the 20th of October, and then the trend was downward. I can give you any particular day.

Mr. PECORA. Have you found a copy of the resolution that you referred to in the course of your testimony during the forenoon session today in which you said that the officers of the Metpotan Co.

and the Chase Securities Corporation, respectively, had power to transact the business which it transacted with the Shermar Corporation?

Mr. WIGGIN. I spoke of a Chase Securities Corporation resolution, did I not, giving the officers power?

Mr. PECORA. Well, either the Chase Securities Corporation or the Metpotan.

Mr. WIGGIN. Yes; I think it was the Chase Securities Corporation.

Mr. PECORA. All right.

Mr. WIGGIN. We have sent to New York for it, Mr. Pecora. We do not have it here yet.

Mr. PECORA. Is that in the nature of a general resolution that was adopted a long time before this trading account was opened?

Mr. WIGGIN. Oh, I think so.

Mr. PECORA. After the termination of this trading account on November 11, 1929, do you know whether or not the Chase Securities Corporation became a participant in any other trading account dealing with the shares of the Chase National Bank and the Chase Securities Corporation? In connection therewith I suggest that you refer to records consisting of a letter from Dominick & Dominick addressed to the Chase Securities Corporation dated January 7, 1930.

Mr. WIGGIN. I have the letter. Yes.

Mr. PECORA. Does that letter serve to refresh your recollection to the effect that on or about January 7, 1930, another trading account dealing in the shares of the capital stock of the Chase National Bank or the Chase Securities Corporation was formed with Dominick & Dominick as the managers thereof?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I show you what purports to be a photostatic copy of such a letter, and I ask you if you recognize it to be a true and correct copy thereof? [Handing same to Mr. Wiggin.]

Mr. WIGGIN. Yes.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. Let it be admitted and placed in the record.

(Letter dated January 7, 1930, from Dominick & Dominick, addressed to the Chase Securities Corporation, was received in evidence and marked "Committee Exhibit 22 of October 19, 1933.")

Mr. PECORA. The letter reads as follows, on the letterhead of—

DOMINICK & DOMINICK,  
New York, January 7, 1930.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK AND CHASE SECURITIES CORPORATION, CAPITAL STOCK (REPRESENTED BY BANKERS TRUST CO. DEPOSITARY RECEIPTS)

#### TRADING ACCOUNT

CHASE SECURITIES CORPORATION,  
New York City.

DEAR SIRS: We are forming an account of which we shall be the managers, with full discretionary powers as such, and in which we shall participate, for the purpose of trading in the capital stock of The Chase National Bank of the City of New York and Chase Securities Corporation (represented by Bankers Trust Co. depositary receipts). The account shall be on the basis of 15,000 shares and will become operative when participation aggregating 15,000 shares have been received by us.



As managers, we have obtained on behalf of the account options to purchase, in whole or in part, capital stock of The Chase National Bank of the City of New York and Chase Securities Corporation (represented by Bankers Trust Co. depositary receipts) as follows: 7,500 shares at \$155 a share; 7,500 shares at \$160 a share; 5,000 shares at \$165 a share; 10,000 shares at \$170 a share; 10,000 shares at \$175 a share; 10,000 shares at \$180 a share; said options to continue in full force and effect to and until the close of business on April 7, 1930, but in no event beyond the termination of the trading account.

The account will terminate at the close of business on April 7, 1930, but we as managers reserve the right, in our discretion, to extend it for a further period of 90 days or to terminate the account at an earlier date.

As managers we shall have the sole management and entire conduct of the business and affairs of the account, with all the usual powers, including the right on behalf of the account to make or procure loans and to pledge the obligations of the account participants therefor, to pay all commissions and expenses of every nature, and for the account to purchase, sell, sell short, repurchase, resell, or hold shares of the capital stock of The Chase National Bank of the City of New York and Chase Securities Corporation (represented by Bankers Trust Co. depositary receipts) to such an amount, at such prices, and in such manner as we may deem advisable, and generally to act in all respects as in our opinion may be to the best interests of the account, provided only that the account shall at no time be short or own or be committed for an amount of stock in excess of 15,000 shares.

Notwithstanding our relations as managers, we shall enjoy as participants in the account all the rights and benefits and be subject to all the liabilities hereby respectively granted to and imposed upon other participants.

We shall in no way be liable for any error of judgment or mistake of law or fact or failure of any party contracting with us to live up to his agreement, nor shall we be liable except for our own failure to exercise good faith.

The failure of any participant to adhere to the terms of this agreement shall in no respect relieve the other participants from their account obligations.

It is understood that this agreement shall bind and benefit the several parties and their respective heirs, executors, administrators, successors, and assigns.

At our option as managers each participant shall take up and pay for in full or margin to our satisfaction his pro rata share of stock held by the account and shall meet his other account obligations if any upon call by us. Stock so taken up and paid for during the life of the account shall be for carrying purposes only, and shall be subject to call by the account managers at any time.

No partnership relations shall arise herefrom. At the expiration of the account we as managers shall distribute the stock and/or cash remaining in our hands among the participants pro rata in the proportion which the number of shares of their respective participations bears to 15,000 shares. The participants shall share pro rata in the said shares and in the profits or losses of the account, after allowing for all expenses incurred by the managers, and the apportionment and distribution of the said shares, profits or losses, shall be conclusive upon the participants.

As compensation for our services in forming and managing this account we shall receive a sum equivalent to 10 percent of the net profit. We shall also receive a commission of 50 cents a share on purchases and sales of stock made by us in the market for the account.

In accordance with the understanding between us, we have reserved for you in this account a participation of 3,000 shares.

Please confirm your acceptance of this participation by signing and returning to us the enclosed duplicate of this letter.

Very truly yours,

DOMINICK & DOMINICK, *Managers.*

Confirmed and accepted

J. C. A.

The CHAIRMAN. What is the date of that?

Mr. PECORA. January 7, 1930.

The CHAIRMAN. This was the fourth account?

Mr. PECORA. This was the fourth account, yes.

Mr. PECORA. Now, Mr. Wiggin, I notice reference in this letter I have just read, marked "Committee Exhibit No. 22, October 19,

1933", addressed to Dominick & Dominick, of their having obtained on behalf of the account, as its managers, options to purchase up to 50,000 shares. In connection therewith I show you a photostatic reproduction of what purports to be a copy of a letter addressed by Dominick & Dominick on January 7, 1930, to Chase Securities Corporation, and ask you if you recognize it to be a true and correct copy of the letter which constitutes your reference to the option for such 50,000 shares referred to in the exhibit last offered in evidence.

Mr. WIGGIN. It is.

Mr. PECORA. Mr. Chairman, I offer it in evidence, and ask that it may be spread on the record of the subcommittee's hearings.

The CHAIRMAN. It will be received, and the committee reporter will make it a part of the record.

(The letter dated Jan. 7, 1930, from Dominick & Dominick to Chase Securities Corporation, was marked "Committee Exhibit No. 23, Oct. 19, 1933", and will be found next following where Mr. Pecora read it.)

Mr. PECORA. It reads as follows, being on the letterhead of Dominick & Dominick, 115 Broadway, New York, and I won't read the entire caption.

CHASE SECURITIES CORPORATION,

JANUARY 7, 1930.

*New York City.*

DEAR SIR: We propose to form an account of which we shall be the managers with full discretionary powers as such and in which we shall participate for the purpose of trading in the capital stock of The Chase National Bank of the City of New York and Chase Securities Corporation (represented by Bankers Trust Co. depositary receipts); said account to be on the basis of 15,000 shares and to terminate at the close of business April 7, 1930, with the right on our part, however, in our discretion, to extend the account for an additional 90 days or to terminate it on any earlier date.

We hereby beg to confirm that, subject to the formation by us of said account and in consideration thereof, you have extended to us, for and on behalf of the account, the right to purchase from you, in whole or in part and at any time and from time to time, on or before the close of business April 7, 1930 (but in no event after the termination of the account), capital stock of The Chase National Bank of the City of New York and Chase Securities Corporation (represented by Bankers Trust Co. depositary receipts), as follows: 7,500 shares a \$155 a share, 7,500 shares at \$160 a share, 5,000 shares at \$165 a share, 10,000 shares at \$170 a share, 10,000 shares at \$175 a share, 10,000 shares at \$180 a share.

It is also understood that pending the exercise by us of this option and during its existence, upon our request, you will loan to us on behalf of the account, all or any part of 10,000 shares of said stock at the market price prevailing at the time any part of the said shares is borrowed by us.

Please confirm that the above is in accordance with your understanding and is the agreement between us by signing and returning to us the enclosed duplicate of this letter.

Yours truly,

DOMINICK & DOMINICK.

Confirmed and agreed to:

CHASE SECURITIES CORPORATION,  
By J. C. A., Vice President.

Now, let me ask you if there was any arrangement between Chase Securities Corporation and any other corporation under which Chase Securities Corporation was to obtain the stock covered by this option.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. You say there was?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And with what corporation was such arrangement made by Chase Securities Corporation?

Mr. WIGGIN. By getting 20,000 shares of the Metpotan Corporation and 30,000 shares of The Shermar Corporation.

Mr. PECORA. Did the Chase Securities Corporation on the date of this option, namely, January 7, 1930, have or own 50,000 shares of the capital stock of The Chase National Bank and Chase Securities Corporation?

Mr. WIGGIN. Did Chase Securities Corporation own it?

Mr. PECORA. Yes.

Mr. WIGGIN. No, sir.

Mr. PECORA. In this instance again how did it happen that Chase Securities Corporation entered into a formal option agreement with Dominick & Dominick if it knew it did not have the shares covered by the option?

Mr. WIGGIN. I presume it was negotiated with the Chase Securities Corporation, hence the letter was addressed to Chase Securities Corporation. Chase Securities Corporation protected itself by its trade with the other two corporations.

Mr. PECORA. Why wasn't the option given directly by those two other corporations to Dominick & Dominick?

Mr. WIGGIN. It could have been done.

Mr. PECORA. But why wasn't it done? I realize that it could have been done, but why wasn't it so done?

Mr. WIGGIN. Because the negotiations were all with Chase Securities Corporation.

Mr. PECORA. When the officers of Chase Securities Corporation that had those negotiations with Dominick & Dominick realized that their corporation did not have those 50,000 shares of stock, why didn't they tell that to Dominick & Dominick and suggest to Dominick & Dominick that they negotiate the option agreements directly with the Metpotan and Shermar Corporations?

Mr. WIGGIN. It could have been done. They just did not do it that way. They did it through Chase Securities Corporation.

Mr. PECORA. Was there any special reason why it was done in that way and not in the more direct way?

Mr. WIGGIN. Not that I know of. The negotiations were started there and they were finished there. That is all that I know.

Senator COUZENS. Let me ask right there: Did Chase Securities Corporation make any profit out of it, I mean by doing it in that way?

Mr. WIGGIN. No. The profit went to the Metpotan on its shares and to Shermar on its shares, if there had been any.

Senator COUZENS. And Chase Securities Corporation assumed this obligation but received no profit?

Mr. WIGGIN. They assumed no obligation, except one on which they were protected.

Senator COUZENS. There is no evidence in that communication of theirs that they were protected, and it seems rather peculiar that the officials of Chase Securities Corporation would do all the negotiating for these other two corporations without a profit.

Mr. WIGGIN. Well, they owned Metpotan, which had a substantial profit in it, you know.



Mr. PECORA. No. Shermar Corporation came in for a loss and had no profits, didn't it?

Mr. WIGGIN. No.

Mr. PECORA. As between the Metpotan and the Shermar Corporation?

Mr. WIGGIN. I don't think the Shermar Corporation sold any. I don't think they got to their option. It let the Metpotan Corporation out first, and it never reached the Shermar Corporation.

Mr. PECORA. Here is a situation where the Metpotan Corporation was a wholly owned concern by Chase Securities Corporation, yet Chase Securities Corporation enters into negotiations with Dominick & Dominick leading to the granting of an option of 50,000 shares of stock of the Chase National Bank by the Securities Corporation to Dominick & Dominick, and at a time when the Securities Corporation officers knew their corporation did not have that stock.

Mr. WIGGIN. They did not have the stock, but they had contracts for the same amount of stock under option.

Mr. PECORA. Well, they had those contracts with the Metpotan Co., which was a wholly owned subsidiary, and with the Shermar Corporation.

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Did the Metpotan Corporation at that time have 50,000 shares of the Chase National Bank stock?

Mr. WIGGIN. No, sir.

Mr. PECORA. Did it only have 20,000 shares?

Mr. WIGGIN. They had 20,000 shares?

Mr. PECORA. Do you know that to be a fact?

Mr. WIGGIN. Yes. I have looked that up.

Mr. PECORA. Were there any agreements in writing prior to the granting of this option on January 7, 1930, by Chase Securities Corporation to Dominick & Dominick, which protected, to us your term, Chase Securities Corporation in granting this option at a time when it knew it did not have the stock?

Mr. WIGGIN. The Metpotan Corporation wrote a letter to the Shermar Corporation on January 9. It was agreed to verbally on January 7, but confirmed by letter of January 9.

Mr. PECORA. In other words, the writing which gave Chase Securities Corporation that protection did not come into existence until 2 days after Chase Securities Corporation in writing committed itself to this option agreement with Dominick & Dominick; is that right?

Mr. WIGGIN. That is right.

Mr. PECORA. Why didn't Chase Securities Corporation, do you suppose, have that protection at the time?

Mr. WIGGIN. They had it verbally. They ran no risk. It was all agreed to. It was simply the machinery of getting around to the writing of the letter, is all.

Mr. PECORA. Was there any writing between the Shermar Corporation and Chase Securities Corporation, or between Shermar Corporation and the Metpotan Corporation, relating to this option?

Mr. WIGGIN. That is the letter I referred to. That is this letter which I have here, of January 9.

Mr. PECORA. To whom is the letter you have in mind addressed?

Mr. WIGGIN. To the Shermar Corporation.

Mr. PECORA. I show you what purports to be a photostatic copy of a letter dated January 9, 1930, addressed to the Shermar Corporation, and ask you if that is the copy of the letter to which you have just referred.

Mr. WIGGIN. There is another letter, I guess, Mr. Pecora. This is not the one.

Mr. PECORA. Well, by whom is it addressed and to whom?

Mr. WIGGIN. It is a letter from the Metpotan Co. to the Shermar Co., signed just with an initial.

Mr. PECORA. Well, I haven't a copy of such a letter.

Mr. CONBOY. It has been furnished to you. It was identified by the exhibit no. 75-28. That will probably identify it in your file. Can't you put your hands on it?

Mr. PECORA. No, sir.

Mr. CONBOY. Then I will take this one out and give it to you.

Mr. WIGGIN. We will give you this one.

Mr. PECORA. I do not seem to have a copy of that. I have the others.

Mr. WIGGIN. Here it is.

Mr. PECORA. I offer in evidence the copy of the letter produced by the witness, dated January 9, 1930, and addressed to the Shermar Corporation.

The CHAIRMAN. Let it be received and the committee reporter will make it a part of the record.

(A letter dated January 9, 1930, addressed to the Shermar Corporation, was marked "Committee Exhibit No. 24, October 19, 1933", and will be found later on in the record where read by Mr. Pecora.)

Mr. PECORA. The photostatic copy of letter which has been marked "Committee Exhibit No. 24, October 19, 1933", reads as follows:

JANUARY 9, 1930.

The SHERMAR CORPORATION,  
New York, N.Y.

GENTLEMEN: Dominick and Dominick have formed an account to trade in Bankers Trust Co. receipts for Chase National Bank and Chase Securities Corporation stock and we have extended to them the right to purchase from us at any time or from time to time, on or before the close of business April 7th, 1930, all or any part of 50,000 shares of Chase Stock.

We shall thank you to confirm to us that of the 50,000 shares which they have a right to purchase, 30,000 shares will be for your account at the following prices:

10,000 at 170    10,000 at 175    10,000 at 180

Yours very truly,

F. C.

*Vice President.*

Do you know which particular officer signed this letter?

Mr. WIGGIN. Mr. Callahan.

Mr. PECORA. Is he vice president of the Metpotan Co.?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I presume that the Shermar Corporation caused a reply or acknowledgment to be sent to Metpotan Corporation to this letter of January 9, 1930?

Mr. WIGGIN. Yes, sir.

Mr. CONBOY. Mr. Pecora, you have a copy of it. It was identified as exhibit 75-36.

Mr. PECORA. Now, the option prices referred to in this letter which has been marked "Committee Exhibit No. 24, October 19, 1933", were, again, the 3 highest unit prices for the 3 blocks of stock, each for 10,000 shares, referred to?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Did Dominick & Dominick ever exercise their option for any part of those 30,000 shares?

Mr. WIGGIN. No, sir.

Mr. PECORA. They never did?

Mr. WIGGIN. No, sir.

Mr. PECORA. Did they exercise their option to the 20,000 shares out of those 50,000 shares option?

Mr. WIGGIN. I understand so.

Mr. PECORA. Against the Metpotan Co.?

Mr. WIGGIN. I understand so.

Mr. PECORA. Do you know why they did not exercise their option for any part of the 30,000 shares which The Shermar Corporation agreed to supply?

Mr. WIGGIN. I do not know why they did not exercise their option. But the account was terminated on March 7, 1930.

Mr. PECORA. It was terminated a month ahead of time, wasn't it?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Was that because the account was operating at a loss?

Mr. WIGGIN. I do not know.

Mr. PECORA. Well, you know as a matter of fact that it did operate at a loss, don't you?

Mr. WIGGIN. I do not know, but I will find out.

Mr. PECORA. All right.

Mr. WIGGIN. I will present a letter, Mr. Pecora, from Dominick & Dominick to Chase Securities Corporation handing them a check for the net profit of their participation in the account.

Mr. PECORA. A profit?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. I should like to see it.

Mr. WIGGIN. Here it is.

Mr. PECORA. Have you got the statement that according to this letter you have shown me, accompanied the letter?

Mr. WIGGIN. I think so.

Mr. PECORA. I should like to see it.

Mr. HARGREAVES. Mr. Pecora, might I see that letter and see what statement it refers to?

Mr. PECORA. Certainly. Here it is.

Mr. WIGGIN. Now, here is that statement.

Mr. PECORA. Did the Metpotan Corporation furnish to Dominick & Dominick under this option arrangement that has been put in evidence, all the 20,000 shares that it had agreed to furnish to Chase Securities Corporation to enable it to live up to its option agreement?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And those 20,000 shares under the option arrangement were turned over to the account managers at the following prices, were they not: 7,500 shares at \$155 a share, 7,500 shares at \$160 a share, 5,000 shares at \$165 a share?



Mr. WIGGIN. That is right; yes, sir.

Mr. PECORA. Did the Metpotan Company sustain a loss on those transactions?

Mr. WIGGIN. I will find out. I do not know (after conferring with associate). We cannot tell from our accounts here, the figures we have here whether there was a profit or not on that stock, because we have not the average prices, but on the Government basis of income tax return, of first purchase against first sale, it would have shown a loss of about \$35,000.

Mr. PECORA. A loss of \$35,362.38?

Mr. WIGGIN. That is approximately correct.

The CHAIRMAN. A loss to whom? To Chase?

Mr. WIGGIN. The Metpotan Corporation. Mr. Pecora, I am reminded that against that loss they had received a distribution of profits which would have offset that.

Mr. PECORA. Of how much?

Mr. CONBOY. You have it there.

Mr. PECORA. This check of \$25,789.85 went to the Chase Securities Corporation, did it not?

Mr. WIGGIN. It was turned over to Metpotan.

Mr. PECORA. By the Chase Securities?

Mr. WIGGIN. Yes.

Mr. PECORA. The letter that you have produced here, with the accompanying statement referred to in the letter, is dated March 7, 1930, and is addressed by Dominick & Dominick to the Chase Securities Corporation. Referring to this trading account, it says as follows:

DEAR SIR: We, as managers, have terminated the above account as of the close of business today, and the unexercised balance of the options ceded us on behalf of the account have been canceled. We inclose herewith our check to your order for \$4,461.34, representing the net profit on your participation and the selling commission on your total confirmed sales of stock, the details of which amount are shown on the accompanying statement. Please acknowledge receipt of this check in full in final settlement of your interest.

That is signed by Dominick & Dominick. But the statement accompanying this letter which you have produced shows a profit to the Chase Securities Corporation on 3,300-share participation at the rate of \$5.14 plus per share, amounting to \$16,989.85, and selling commission at the rate of \$2 per share on 4,400 shares, or \$8,800, making a total of \$25,789.85. What was the amount of the check that was received inclosed in this letter of March 7, 1930, from Dominick & Dominick? The letter says \$4,461.34. The accompanying statement says \$25,789.85.

Mr. CONBOY. Is there a correction of the amount in the letter itself?

Mr. PECORA. There is a lead pencil statement there. I do not know that that is a part of the original letter.

Mr. CONBOY. It is apparently a correction to conform to the memorandum that accompanied it. Does the change conform to the memorandum?

Mr. PECORA. The change in lead pencil on the letter conforms to the amount set forth in the statement which accompanied the letter.

Mr. CONBOY. It is the indicated amount there in pencil, as shown by the statement.

Mr. PECORA. I was just wondering whether the lead pencil amount is to be adopted as the correct amount, in preference to the type-written amount.

Mr. CONBOY. It is the amount that is in that statement; and the original amount in that letter is apparently an error which was corrected. You can probably check that against such records as you have from Dominick & Dominick. I assume you have them.

The CHAIRMAN. Were the lead pencil marks made by Dominick & Dominick?

Mr. CONBOY. I beg your pardon, sir?

The CHAIRMAN. Were the lead pencil changes made by Dominick & Dominick?

Mr. CONBOY. I could not tell you that. Would you care to hear what Mr. Hargreaves has to say about it? He is treasurer of the corporation.

Mr. PECORA. I would be very glad to hear his statement.

Mr. HARGREAVES. One of our men, in receiving the check, called the attention of Dominick & Dominick to the apparent error in the letter, and they asked us to change it in pencil at the time the check was received.

Mr. PECORA. Then the check was for the larger amount.

Mr. HARGREAVES. \$25,789.85.

Mr. CONBOY. The check conformed to the statement which accompanied the letter.

Mr. HARGREAVES. That is correct.

Mr. PECORA. Do you know why none of the 30,000 shares that the Shermar Corporation agreed to furnish either to the Metpotan Co. or the Chase Securities Corporation in order to enable the latter corporation to live up to its obligation under the option agreement for 50,000 shares, were ever drawn down?

Mr. WIGGIN. No, I do not; and I do not know why they terminated the account.

Mr. PECORA. Was it because the market showed a steadily downward trend at that time?

Mr. WIGGIN. I do not know why they canceled the option. I am very sorry they did. I would have been glad if they had not.

Mr. CONBOY. Did the market show a constantly downward trend?

Mr. PECORA. I do not know.

Mr. CONBOY. Your question would imply it did.

Mr. PECORA. I am asking if it was because of any such reason. I do not know that it was.

Mr. WIGGIN. I do not know.

Senator COUZENS. Have you any record of what happened to the market after the cancelation of the option?

Mr. WIGGIN. We can get that.

The CHAIRMAN. I understood you a moment ago to say there was a loss of \$35,000 odd.

Mr. PECORA. A loss to the Metpotan Co. of \$35,000 odd.

Mr. WIGGIN. I think that profit in Chase went to the Metpotan Co. Senator COUZENS. So that reduced Metpotan's loss to about \$10,000.

Mr. WIGGIN. Yes. You understand that loss—we have not figured it on average cost of the stock. It is only a loss based upon income-tax return of first sale against first purchase.

Mr. PECORA. Which is a fair rule, is it not, for estimating those things?

Mr. WIGGIN. It may be a fair rule for the income tax, but it is not good bookkeeping for an account.

Mr. PECORA. What would be a better way of reckoning it?

Mr. WIGGIN. I do not want to be a theorist here, but suppose you buy stock, and you buy it at various prices running over a period of time. What does that stock cost you? It costs you the average, does it not?

Mr. PECORA. That is one way of putting it.

Mr. WIGGIN. There is no other way. That is what it has cost, is it not? If you add it all up, that is what it has cost. The price per share is the average. They must have some rule on the income tax, and they have adopted this rule of first sale against first purchase, unless certificates are identified. That is my understanding. But you would not take the first purchase as the cost of the stock if it averaged a good deal less than that, or if it averaged more. You would have to take it at the average.

Mr. PECORA. It would be all right to take the average if all the stock had subsequently been sold at various prices.

Mr. WIGGIN. Whether it has been sold or not, I do not think enters into it, Mr. Pecora. The cost of that stock is the total dollars it cost you, is it not?

Mr. PECORA. Yes; but where you do not sell that total of the stock, but only part of it, is not the more equitable rule to apportion the sales as against the first stock received or purchased?

Mr. WIGGIN. I appreciate that the income tax must have some method of determining it, but first purchase is not the cost of the stock. It is just the cost of those particular shares.

Senator COUZENS. What would you suggest as a rule, if it was not all sold?

Mr. WIGGIN. For income-tax purposes?

Senator COUZENS. Yes.

Mr. WIGGIN. I do not suggest any change for income-tax purposes. My only point is that for our own bookkeeping, for our own reckoning of profits, we must take the average cost. I am not speaking of the income tax.

The CHAIRMAN. The committee will stand adjourned until 10 o'clock tomorrow.

(Whereupon, at 4:30 p.m., Thursday, October 19, 1933, the subcommittee adjourned until 10 o'clock the following morning.)



# STOCK EXCHANGE PRACTICES

FRIDAY, OCTOBER 20, 1933

UNITED STATES SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON  
BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to adjournment on yesterday, at 10 a.m., in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher, presiding.

Present: Senators Fletcher (chairman), Adams (substitute for Barkley and proxy for Costigan), Couzens, and Goldsborough (substitute for Norbeck).

Present also: Senator Reynolds of North Carolina.

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver, David Saperstein, and David Schenker, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Martin Conboy, counsel for Albert H. Wiggin; Eldon Bisbee, Alfred E. Mudge, Joseph B. Lynch, Julian L. Hagen and C. Horace Tuttle of Rushmore, Bisbee & Stern, and also William Dean Embree and A. Donald MacKinnon of Milbank, Tweed, Hope & Webb, counsel for The Chase National Bank and The Chase Corporation; Roland L. Redmond, counsel for New York Stock Exchange.

The CHAIRMAN. The subcommittee will come to order. Mr. Pecora, you may proceed.

Mr. PECORA. Is there present in the room a representative of the brokerage firm of Edward A. Pierce & Co.?

Mr. PIERCE. Yes, sir.

Mr. PECORA. Will you please come forward?

The CHAIRMAN. Hold up your right hand and be sworn. You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matters now under investigation by this committee. So help you God.

Mr. PIERCE. I do.

Senator COUZENS. Mr. Chairman, before you proceed with this witness I should like to make a statement in reference to an article that appears in the New York Times of this morning headed:

Wiggin pools sold Chase Bank stock.

I do not desire to take up the time of the committee to read the whole article, but I direct the committee's attention to the second paragraph, which is headed:

Agree to the loan inquiry.

Then it goes on to say:

The committee, apparently having decided otherwise, agreed, after the tilt between Chairman Fletcher and Mr. Aldrich, to investigate the bank's loans to the Cuban Republic immediately. A special session will be held at 10 o'clock Monday morning.

I want to say for the record that this is wholly in error. Not only did the chairman not state that any agreement had been reached not to go into the examination of those loans, but not a single member of the subcommittee, at any time, publicly or privately in my hearing, ever opposed going into the question of the Cuban loans. The writer of this article is wholly in error when he says that the committee "apparently having decided otherwise" acceded to the request of Mr. Aldrich. The committee never at any time took a vote, and neither individually nor collectively ever opposed going into the question of the Cuban loans.

The CHAIRMAN. Senator Couzens is quite right about that. You may proceed, Mr. Pecora.

**TESTIMONY OF EDWARD A. PIERCE, MEMBER OF THE FIRM OF  
E. A. PIERCE & CO., NEW YORK CITY**

Mr. PECORA. Mr. Pierce, will you give your full name and address to the committee reporter for the record?

Mr. PIERCE. Edward A. Pierce, 40 Wall Street, New York.

Mr. PECORA. What is your business or occupation, Mr. Pierce?

Mr. PIERCE. Stockbroker.

Mr. PECORA. Are you a member of the firm known as "Edward A. Pierce & Co."?

Mr. PIERCE. E. A. Pierce & Co.

Mr. PECORA. Is that a copartnership?

Mr. PIERCE. Yes, sir.

Mr. PECORA. And where is its principal office or place of business?

Mr. PIERCE. 40 Wall Street.

Mr. PECORA. Does it maintain branch offices in any other city or cities?

Mr. PIERCE. Yes, sir.

Mr. PECORA. In how many cities does your firm maintain branch offices?

Mr. PIERCE. About 40.

Mr. PECORA. And how many branch offices all told does your firm maintain in those 40 cities?

Mr. PIERCE. Probably 44.

Mr. PECORA. Are there any members of your firm who are members of the New York Stock Exchange?

Mr. PIERCE. Yes, sir.

Mr. PECORA. How many such members are members of the New York Stock Exchange?

Mr. PIERCE. Four.

Mr. PECORA. That is, your firm has or controls four seats on the New York Stock Exchange?

Mr. PIERCE. To the extent that 3 are controlled under the general partnership and 1 is a special partner.

Mr. PECORA. Yes; I see. And how many seats are owned or controlled by your firm on stock exchanges other than the New York Stock Exchange?

Mr. PIERCE. Well, that is quite a chore. We have seats on nearly all the principal exchanges of this country and Toronto, Canada.

Mr. PECORA. About how many are there, Mr. Pierce?

Mr. PIERCE. Well, Boston, New York, Chicago, San Francisco, Detroit—do you refer to stock exchanges only?

The CHAIRMAN. Let us take them all in. Are there any others?

Mr. PIERCE. Stock exchanges?

The CHAIRMAN. Stock exchanges, produce exchanges, and any other exchanges.

Mr. PIERCE. Boston Stock Exchange, New York Stock Exchange, New York Curb, New York Cotton Exchange, New York Produce Exchange, New York Commodity Exchange, New Orleans Cotton Exchange, New Orleans Stock Exchange, Detroit Stock Exchange, Chicago Stock Exchange, Chicago Board of Trade, Toronto Stock Exchange, Winnipeg Grain Exchange, Liverpool Cotton Exchange, San Francisco Stock Exchange. Those are the principal ones as I remember it, sir.

Mr. PECORA. Mr. Pierce, is your firm what is in the parlance of the Street denominated a wire house?

Mr. PIERCE. Yes, sir.

Mr. PECORA. And does a very extensive commission business with customers throughout the country?

Mr. PIERCE. Yes, sir.

Mr. PECORA. Mr. Pierce, have you had any conferences or discussions within the last 2 or 3 weeks with the president of the New York Stock Exchange with respect to a questionnaire that I caused to be sent to Mr. Whitney under date of September 30, last?

Mr. PIERCE. Yes, sir.

Mr. PECORA. With request that he cause such questionnaire to be circulated among the members of the Exchange?

Mr. PIERCE. Yes, sir.

Mr. PECORA. When did you last confer with Mr. Whitney on that subject?

Mr. PIERCE. Yesterday.

Mr. PECORA. Was the conference at your request or at his?

Mr. PIERCE. Mine.

Mr. PECORA. Had you previously been subpoenaed to attend before this committee this morning?

Mr. PIERCE. Subpena was served on me night before last while I was in Washington. Or, rather, it was served at my office in New York while I was in Washington.

Mr. PECORA. Did you indicate to Mr. Whitney that you had been subpoenaed and were expected to attend before the committee this morning when you conferred with him yesterday?

Mr. PIERCE. Yes, sir.

Mr. PECORA. Were there any other members of the exchange, or brokers, present at your conference with Mr. Whitney?

Mr. PIERCE. Yes, sir.



Mr. PECORA. Who were they?

Mr. PIERCE. Mr. Dominick, Mr. Prentice—pardon me, Mr. Pecora, did you ask about members of the stock exchange?

Mr. PECORA. Or members of brokerage firms holding seats on the stock exchange.

Mr. PIERCE. Mr. Dominick—

Mr. PECORA (interposing). As you give the names of these gentlemen will you indicate the firms that they are connected with, respectively?

Mr. PIERCE. Yes, sir. Mr. Dominick of Dominick & Dominick, Mr. Prentiss of Hornblower & Weeks, Mr. Duncan of W. E. Hutton & Co., Mr. Drevers of Eric & Drevers, Mr. Chapman of Chisholm & Chapman. For the moment I do not recall any others.

Mr. PECORA. What was that?

Mr. PIERCE. At the moment I do not recall any others.

Mr. PECORA. Do you know that all these gentlemen whose names you have just mentioned had also been subpoenaed to appear before this committee this morning?

Mr. PIERCE. Yes, sir.

Mr. PECORA. And was that fact known to all those present at this conference that you all had with Mr. Whitney on yesterday?

Mr. PIERCE. Yes, sir.

Mr. PECORA. Who else attended that conference besides Mr. Whitney and the gentlemen whose names you have given us?

Mr. PIERCE. Representatives of the exchange counsel.

Mr. PECORA. Was that Mr. Redmond?

Mr. PIERCE. Yes, sir.

Mr. PECORA. Anyone else?

Mr. PIERCE. One of his partners.

Mr. PECORA. Who?

Mr. PIERCE. I am not sure of the name but I think Mr. Mason.

Mr. PECORA. Mr. Pierce, do you know the circumstances under which this conference was called?

Mr. PIERCE. I do. That was one of my purposes in consulting Mr. Whitney.

Mr. PECORA. What were the circumstances surrounding the calling of the conference?

Mr. PIERCE. I was in Washington when your first questionnaire was brought out, and was not at all familiar with the surrounding circumstances, not until I returned to New York. I had not seen the exchange of correspondence between Mr. Whitney and yourself in this matter. It was all quite new to me. I had understood that Mr. Whitney had not, or the stock exchange as such had not complied with your request as you had expected them to do, and I was curious to know what the reasons were, and exactly where we stood.

Mr. PECORA. Have you now completed your answer?

Mr. PIERCE. Yes, sir.

Mr. PECORA. Well, did you invite these other gentlemen who were also under subpoena to appear before this committee this morning, to attend that conference?

Mr. PIERCE. I did not.

Mr. PECORA. Do you know how it happened that they also were present at this conference on yesterday?

Mr. PIERCE. No, sir.

Mr. PECORA. Who fixed the hour for the holding of this conference, you or Mr. Whitney?

Mr. PIERCE. I did not fix it. I was invited by Mr. Frank Hope, president of the stock exchange brokers.

Mr. PECORA. To attend the conference?

Mr. PIERCE. Yes.

Mr. PECORA. Were these other gentlemen also notified by Mr. Hope to attend the conference, so far as you know?

Mr. PIERCE. I think so, so far as I know.

Mr. PECORA. Will you give the committee in substance what took place at this conference yesterday?

Mr. PIERCE. There seems to be considerable difference of opinion as between you and gentlemen of the stock exchange as to the cost of supplying you with the information that you called for in your original questionnaire—

Mr. PECORA (interposing). Just one moment. I do not mean to interrupt you, but I think it might be well at this time for me to ask you this: At the conference yesterday was the original questionnaire the only questionnaire discussed?

Mr. PIERCE. No, sir. Some of us had had a telephonic conversation with your Mr. Schenker and ascertained that the original questionnaire would be substantially modified.

Mr. PECORA. But at the conference yesterday with Mr. Whitney and these other gentlemen was the modified form of questionnaire brought to your attention by anybody?

Mr. PIERCE. Yes, sir.

Mr. PECORA. All right. Now you may go ahead and give us the substance of what was said at this conference yesterday.

Mr. PIERCE. The discussion was purely along lines of the extent to which we could—or rather to determine the extent to which we could comply with the request contained in your modified questionnaire, as to whether or not you would expect complete exactness in the replies. Our accountant estimates that if we were allowed a reasonable latitude in approximating accuracy in the matter of answering some of your questions, the expense would be nominal and the time would, perhaps, be some 2 or 3 weeks. On the other hand, if we must be exact about them, it would take several months, undoubtedly, and the cost would be great if we had to have the work done outside. Our purpose of that conference, the main purpose, was to try to find a way in which we could give you gentlemen the information you require with a sufficient degree of accuracy, amounts, so as to enable us to get it together without a large expenditure of time and money ourselves.

Mr. PECORA. And it would be possible to give us an approximation by way of answer to the various questions embodied in our questionnaire at what you would call a nominal expense and with the expenditure of only 2 or 3 weeks' time.

Mr. PIERCE. Well, that would all depend upon the degree of approximation with which you would permit us to do the work.

Mr. PECORA. Well, with a fair degree of approximation, something that would give the committee reasonable information, a reasonable notion of the kind of business transactions, and so forth, that are called for in the questionnaire.

Mr. PIERCE. Mr. Pecora, I hope you will believe I am not sparing with you. That would all depend on whether or not we could agree upon what is fair. I am very sure we are anxious to cooperate in any reasonable degree. But I can tell you that if we were compelled to answer questions of even the modified questionnaire exactly and precisely, and the markets were sufficiently active so that we would have to employ outside help, it would take, in the case of our firm—and I consider our records very complete—at least \$50,000 and several months' time. I can satisfy any auditor whom you might put up against him on that point. On the other hand, if we can get together on a questionnaire that will give you all the information you really need, and at the same time not put too great a burden on us, we could put it through without any considerable cost and, if the markets are as they are at the present time, without employing any outside assistance.

Senator COUZENS. Would you say 10 percent would be an approximation, within 10 percent of accuracy?

Mr. PIERCE. I should say we could come nearer than that.

The CHAIRMAN. Well, the information you would give would be practically sufficient upon which the committee could rely in attempting to legislate on any of these questions. We wouldn't want it to misrepresent the situation or to be wholly inadequate, but if sufficient to give us a basis for any legislation that we might enact, why, I think I would consider that probably would be sufficient.

Mr. PIERCE. Well, might I cite an illustration that I think you would all understand even though you are not accountants or familiar with stock exchange accounting—

Mr. PECORA (interposing). Just a moment right there: I would suggest, Mr. Chairman, that the other gentlemen who may be in the room now and who were subpoenaed to appear before the committee this morning, and who are members of firms that hold seats on the New York Stock Exchange, follow the testimony of Mr. Pierce closely, so that when they are called to the stand their examination may be abbreviated without losing the substance of it.

The CHAIRMAN. I think that would save time.

Mr. PECORA. Now you may go ahead, Mr. Pierce.

Mr. PIERCE. Generally speaking, any debit appearing in a trial balance at the end of a given month represents a margin account. On the other hand, we are frequently called upon to buy for a bank or an investor a security which would be paid for a day or two afterwards if we are given an order like that, say, to purchase 100 shares of steel, an investment purchase on December 30, and that goes through our clearings and on to our ledgers December 31. The customer gets the bill December 31, and we will get a check in payment January 2 or 3, a purely cash account. Now, in order to determine whether the December 31 balance item represents a margin account we would have to refer to our ledgers, our January ledgers, the following year. That means that every one of those items, every item appearing in our debit accounts, and we have 26,000 accounts,



would have to be analyzed by referring to the ledgers the following year. I wouldn't think, in the case of our firm certainly, that more than 5 percent of the debit balances appearing at the end of any given month represented investment transactions of that character.

Mr. PECORA. Would it be fair to take the transactions, or to analyze the transactions, say, for the period of one month, in order to ascertain the percentage of such transactions of the whole number of your transactions, and then apply that percentage as representing the average? Would that give us a fair approximation of the facts?

Mr. PIERCE. Might I have that question read?

Mr. PECORA. Yes; the committee reporter will read it to you. (Which was done.)

Mr. PIERCE. Quite, I should think.

Mr. PECORA. Are there any other suggestions that you have to make along these lines, Mr. Pierce?

Mr. PIERCE. I think if we would be permitted to consult with your accountants, who are familiar with your requirements, and who no doubt are familiar with stock exchange methods of accounting, we probably could arrive at a very helpful result. We do not know what you purpose showing.

Mr. PECORA. Well, isn't that indicated pretty well by the modified questionnaire?

Mr. PIERCE. Well, I don't know.

Mr. PECORA. Take the modified questionnaire, and will you point out the various questions that could not be answered without the expenditure of a great deal of time and money?

Mr. PIERCE. That would depend upon the particular house to which it was applied. I can answer only for my house.

Mr. PECORA. Will you do it for your house? Your house is one of the largest, if not the largest, wire houses in the street, isn't it?

Mr. PIERCE. Yes, sir. But we are not an underwriting house.

Mr. PECORA. Well, that means that you would not be put to any expense in furnishing the data or compiling the data to answer these questions.

Mr. PIERCE. Quite right; but the difficulties of our house in rendering a return to your questionnaire are much less than that of houses whose business is more complex.

Mr. PECORA. Well, you have before you, I presume, a copy of the modified questionnaire.

Mr. PIERCE. Yes.

Senator COUZENS. Mr. Chairman, before that question is answered let me ask if the modified questionnaire has been made a part of the record.

The CHAIRMAN. I think not.

Mr. PECORA. This is one of them, Senator Couzens, and I now offer it for the record.

The CHAIRMAN. Let it be received and the committee reporter will make it a part of the record.

(The modified questionnaire sent out by counsel to the committee was marked "Committee Exhibit No. 25, October 20, 1933", and is as follows:)

## COMMITTEE EXHIBIT No. 25, OCTOBER 20, 1933

## QUESTIONNAIRE

A. Give the following data for a current date:

1. Number of members of New York Stock Exchange.
2. (a) Estimate of number of members considered as acting primarily as traders for their own account, giving names and addresses.
- (b) Estimate of number of members considered as acting privately as floor brokers, giving names and addresses.
- (c) Estimate of number of members present on floor.
- (d) Number of members who do not maintain regular representation on the floor of the exchange, giving names and addresses.
- (e) Number of registered firms carrying margin accounts for customers and number of memberships held by such firm.
- (f) Number of members who in addition to acting as brokers have also participated in security offerings and/or pools, syndicates, or joint accounts, giving names and addresses.

(g) Names of all members engaged in handling odd-lot transactions.

(B) Obtain from each member and member firm the following data for the year 1929 and for the year 1933 up to September 1.

(a) Number of customers (persons, partnerships, and/or corporations) who bought or sold any securities on margin or for cash.

(C) Obtain from all odd-lot houses the number of shares bought and the number of shares sold by them during the period from April 1, 1933, to July 31, 1933, inclusive.

(D) Obtain from all members and member firms a statement of the total number of shares bought and the total number of shares sold for their own account on the Exchange during the period from April 1, 1933, to July 31, 1933, inclusive.

(E) Obtain from each member or member firm the following data:

1. The total number of margin accounts on their books as of December 31, 1928; December 31, 1929; December 31, 1930; December 31, 1931; December 31, 1932, and June 30, 1933.

2. The total debit balances in such marginal accounts as of those dates.

(F) Obtain from each member and member firm a statement showing whether member firm or any agent acting for such firm or any partner thereof, had a participation in an option exceeding 10,000 shares of any single security during the years 1929 to 1933, inclusive. In replying to this question furnish the name of each member and his answer for each year of this period.

(G) Obtain from each member or member firm the following data for the years 1929 to 1933, inclusive, furnishing the name of each member and his answer for each year during this period:

1. A statement showing whether member firm or any agent acting for such firm or any partner thereof participated in the profits and/or losses, or in any distribution of securities in any syndicate, pool, and/or joint account.

2. A statement showing whether any joint, syndicate, or pool accounts were maintained on the books of such member firm in which such member or member firm had no proprietary interest.

(H) Obtain from each member or member firm the following data for the years 1929 to 1933, inclusive, furnishing the name of such member or member firm and his answer for each year during this period:

1. Statement showing whether member or member firm has purchased any securities for resale.

2. Whether member or member firm has underwritten or participated in the underwriting and/or distribution of any securities.

3. Whether member or member firm was a member of/or associated with any investment trust.

(I) 1. Obtain from each member or member firm who engaged in brokerage business and securities selling and/or syndicate, pool, or joint account operations a statement showing whether a segregation or allocation of capital and of accounts for each department was maintained during the years 1929 to 1933, inclusive. In replying to this question furnish name of each member or member firm and his answer for each year of this period.

2. Where answer from member or member firm to the previous question is in the affirmative, give date, in each case, when such segregation took effect.

Submit details of plan, stating if in emergencies capital funds may be switched back and forth between the departments.

(J) Obtain from each member or member firm the following data for each year of the years 1928 to September 1, 1933, inclusive:

1. Annual gross charges to customers for commissions for the purchase and sale of securities.

2. The annual gross charges to customers for interest.

3. A detailed annual income statement showing receipts and disbursements by classification.

(K) 1. Give the names of all members who acted as specialists on July 1, 1933, giving the names of the securities in which they were specialists.

2. Furnish copies of all provisions in the constitution and bylaws of the New York Stock Exchange in effect on December 31, 1929, and copies of all amendments subsequent thereto up to August 31, 1933.

3. Give the names of all specialists who have been subjected to formal warning, trial, or disciplinary action of any nature or character whatsoever by any committee or governing body of the exchange for the period from January 1, 1928 to September 1, 1933. In each case state the date, the nature of the alleged violation and the disposition thereof.

(L) Give the following data for each of the years from 1929 to 1933, inclusive:

1. Number of persons employed by the committee on publicity of the New York Stock Exchange in publicity and/or public relations activities.

2. Number of persons employed by the Department of Economist of the New York Stock Exchange.

3. Total yearly expenditures by the New York Stock Exchange for all of the above enumerated purposes.

4. Total number of pamphlets, brochures, printed addresses, articles, or writings of a similar nature circulated or distributed by the exchange or any of its subsidiaries.

5. The titles and dates of all such publications.

6. The number of copies of the two books, "The Work of the Stock Exchange" and "Short Selling", written by the economist of the New York Stock Exchange, which were purchased by the exchange or any of its subsidiaries, and general nature of such distribution.

(M) Give the following data for each of the years from 1928 to September 1, 1933:

1. Names of bond issues listed on the New York Stock Exchange which have been in default in principal or interest during such period.

2. List of members or member houses of the New York Stock Exchange who were suspended for insolvency.

3. List of members suspended or expelled by the New York Stock Exchange, giving dates of such suspensions or expulsions, reasons therefor, and where such members were in partnership, the names of such firms.

(N) Give the following informations for each of the years from 1928 to 1933, inclusive.

(1) All committees of the New York Stock Exchange and the names of the members of each committee.

Mr. PECORA. I might say that many of the questions on that questionnaire are required of the stock exchange as an institution and not by individual brokers or members.

The CHAIRMAN. Does Mr. Whitney's letter, in which he encloses a printed copy of correspondence, include the original questionnaire or the modified questionnaire?

Mr. PECORA. The original one and not the modified one.

Senator COUZENS. Well—

Mr. PECORA. (interposing). Pardon me a moment: I notice that Mr. Redmond, one of counsel for the New York Stock Exchange, is in the room. Mr. Redmond, Chairman Fletcher has just asked if the printed questionnaire which appears to have been sent to members of the New York Stock Exchange at the instance of Mr. Whitney, is the original questionnaire or the modified questionnaire. I



replied that it appears to be the original one. Do you know that it is the original one and not the modified one?

Mr. REDMOND. It was the one that was submitted to Mr. Whitney. The modified questionnaire has never been submitted to him.

Mr. PECORA. What is called the modified questionnaire was modified as a result of conferences with Mr. Whitney and yourself, and Mr. Whitney, as I understand it, has all the modifications that were decided upon at those conferences.

Mr. REDMOND. That is not true, Mr. Pecora. All the modifications were not agreed upon in conference.

Mr. PECORA. Whether agreed upon or not they were proposed by our representatives, weren't they, Mr. Redmond?

Mr. REDMOND. Well, in reply to that I wish to say—

The COMMITTEE REPORTER (Mr. HART). I cannot hear Mr. Redmond while standing back in the room.

Mr. PECORA. Mr. Redmond, will you please come forward.

Mr. REDMOND. Certainly.

Mr. PECORA. I will ask Mr. Redmond to be sworn.

Mr. REDMOND. I have been sworn already, Mr. Pecora.

Mr. PECORA. Not since the amended resolution was adopted.

Mr. REDMOND. No; that is true.

Mr. PECORA. That may make a difference.

#### TESTIMONY OF ROLAND L. REDMOND, MEMBER OF THE FIRM OF CARTER, LEDYARD & MILBURN, NEW YORK, N.Y.

The CHAIRMAN. Do you solemnly swear that your testimony in this hearing will be the truth, the whole truth, and nothing but the truth?

Mr. REDMOND. I do.

Mr. PECORA. You are an attorney and counsellor at law?

Mr. REDMOND. I am.

Mr. PECORA. And a member of the firm of Carter, Ledyard & Milburn?

Mr. REDMOND. I am.

Mr. PECORA. Is that firm counsel for the New York Stock Exchange?

Mr. REDMOND. It is.

Mr. PECORA. And have you, as a member of that firm, devoted yourself with any degree of particularity to the legal interests of the New York Stock Exchange on behalf of your firm?

Mr. REDMOND. I have been the partner in the firm who has taken the most active part in representing the exchange.

Mr. PECORA. Are you familiar with the fact that on or about September 30, 1933, a letter was addressed by me to Mr. Richard Whitney, president of the New York Stock Exchange?

Mr. REDMOND. I am.

Mr. PECORA. You have seen the letter, have you not?

Mr. REDMOND. I have.

Mr. PECORA. And you have conferred with Mr. Whitney, or he with you, about the contents of that letter?

Mr. REDMOND. He referred the letter to me.

Mr. PECORA. Accompanying that letter was a form of so-called "questionnaire" which I requested that Mr. Whitney cause to be

circulated among the members of the New York Stock Exchange and have their return made available to this committee at an early date.

Mr. REDMOND. That is true.

Mr. PECORA. You are familiar with that original form of questionnaire?

Mr. REDMOND. I am.

Mr. PECORA. Following the receipt of that questionnaire and my letter by Mr. Whitney, did you and Mr. Whitney have any conferences with representatives of the investigating staff of this committee with respect to the questionnaire?

Mr. REDMOND. We did.

Mr. PECORA. How many such conferences were held?

Mr. REDMOND. Two.

Mr. PECORA. How long did the first one last, about?

Mr. REDMOND. I would say approximately three hours.

Mr. PECORA. How long did the second one last?

Mr. REDMOND. About the same length of time.

Mr. PECORA. Do you know the dates when those conferences were held?

Mr. REDMOND. I can verify it, I think, immediately [after referring to memorandum]; October 10 and 11.

Mr. PECORA. I have before me a printed document which I will ask you to look at and, after looking at it, will you tell us whether you ever saw a copy of it before?

Mr. REDMOND. I have.

Mr. PECORA. Is it a copy of a printed document which was prepared and caused to be sent to various members of the New York Stock Exchange by Mr. Whitney?

Mr. REDMOND. I believe so.

Mr. PECORA. Under what date was that sent out to the members of the New York Stock Exchange?

Mr. REDMOND. I do not know positively, but I believe it was Tuesday of last week.

Mr. PECORA. Tuesday of last week?

Mr. REDMOND. Of this week.

Mr. PECORA. That was several days after the second conference that you and Mr. Whitney held with representatives of this committee with regard to the questionnaire, was it not?

Mr. REDMOND. That is true.

Mr. PECORA. I offer that document in evidence.

The CHAIRMAN. Let it be admitted and placed in the record.

(The document referred to, being questionnaire circulated to members of the New York Stock Exchange, was received in evidence, marked "Committee Exhibit No. 26", of Oct. 20, 1933, and will be found on page 2527.)

Mr. PECORA. Embodied in this printed document, which has just been marked "Committee's Exhibit 26," in evidence, is what purports to be a questionnaire, or a copy of the original form of the questionnaire, that was sent to Mr. Whitney by me with the letter of September 30, 1933, that has already been referred to.

Mr. REDMOND. I so understand.

Mr. PECORA. At the conferences that you and Mr. Whitney held with representatives of this committee on October 10 and 11 were changes and modifications in that original form of questionnaire proposed and discussed by anyone?

Mr. REDMOND. They were.

Mr. PECORA. Were any of those modifications or changes agreed to in form or substance?

Mr. REDMOND. Some of them were.

Mr. PECORA. Do you know which were and which were not?

Mr. REDMOND. I do.

Mr. PECORA. Will you indicate to the committee, with reference to the printed document marked "Committee's Exhibit 26", which changes were suggested and agreed to and which were not?

Mr. REDMOND. Subdivision A. The words "October 1, 1929, and July 1, 1933" were stricken out, and there were substituted the words "a current date"; so that the question now reads:

Give the following data for a current date.

Subdivision 1 under (a)—"Number of Members of New York Stock Exchange." That we explained had been the same at both of the prior dates, and we agreed that that would give the membership in full detail showing the number of members as of a current date who actually held memberships, those estates that held memberships of deceased members, and those memberships that were in process of transfer.

Under Subdivision 2 (a)—Mr. Pecora, to save time suppose I read it simply as changed rather than reading it in both forms?

Mr. PECORA. All right.

Mr. REDMOND. That question was changed so as to read:

An estimate of the number of members considered as acting primarily as traders.

Subdivision (b)—

Mr. PECORA. As traders for their own account?

Mr. REDMOND. Yes; their own account; I beg your pardon. Subdivision (b) was changed to read:

Estimate of number of members considered as acting primarily as floor brokers.

The CHAIRMAN. Omitting the words "giving names and addresses"?

Mr. PECORA. No. "Giving names and addresses" was included.

Mr. REDMOND. No; those words were stricken out because this is purely an estimate. We pointed out that it was impossible for the exchange to give accurate addresses of persons acting as floor brokers. People do not act solely as floor brokers. It is not a classification that is rigid.

Mr. PECORA. Was not the phraseology of that question modified in order to accord with the situation you have just represented, when the form of the question was changed so as to call for an estimate of the number of members considered as acting primarily as floor brokers?

Mr. REDMOND. Precisely; and for that reason the words "giving names and addresses" went out, because you were not thinking of individuals; you were simply making an estimate of the aggregate.

Mr. PECORA. Go ahead.



Mr. REDMOND. Subdivision (*c*) was changed to read:

Estimate of number of members present on floor.

Subdivision (*d*) was changed so as to read:

Number of members who do not maintain regular representation on the floor of the Exchange, giving names and addresses.

Subdivision (*e*) was changed so as to read:

Number of registered firms carrying margin accounts for customers and number of memberships held by such firms.

Subdivision (*f*) we arrived at no agreement on whatsoever, and held the question in abeyance.

Mr. PECORA. Just one moment. With regard to that subdivision (*f*), question 2*a*, was it not understood that you were to submit a form of that question that was to include your definition of a pool?

Mr. REDMOND. I said that I would submit a definition of a pool, of a syndicate and of a joint account.

Mr. PECORA. Was such a definition ever submitted?

Mr. REDMOND. No, because it became academic, as I saw it, upon the rendition of my opinion which I delivered to Mr. Whitney on Saturday of last week.

Mr. PECORA. That was one of the reasons why the modified form of questionnaire was never finally agreed upon?

Mr. REDMOND. No.

Mr. PECORA. You submitted an opinion eventually to Mr. Whitney?

Mr. REDMOND. Surely.

Mr. PECORA. Which Mr. Whitney adopted and which caused him to write to me to the effect that the governing authorities of the New York Stock Exchange did not deem it proper to circulate this questionnaire among the members, among other reasons, because of the prohibitive cost to such members?

Mr. REDMOND. And the fact that we found no legal authority for any such procedure. That was the basis of my opinion.

Mr. PECORA. Upon rendering that opinion to the stock exchange and Mr. Whitney, as president of the stock exchange, he acted upon it and adopted your conclusions, did he not?

Mr. REDMOND. Yes.

Mr. PECORA. And immediately after he did that, we were notified by him, in substance, that the governing authorities declined to issue a questionnaire in any form to its members.

Mr. REDMOND. I do not think, "in any form", Mr. Pecora.

Mr. PECORA. Was there anything left open for us to agree to with the officers of the Stock Exchange after Mr. Whitney's letter to me?

Mr. REDMOND. We were perfectly ready and willing to sit down and agree to a sensible form of questionnaire.

Mr. PECORA. I thought that had already been done in the two days of conferences that had been held?

Mr. REDMOND. It had not, Mr. Pecora.

Mr. PECORA. Then why did you not defer your opinion until after those conferences had been concluded and a final form of questionnaire decided upon?

Mr. REDMOND. Because, Mr. Pecora, unless I am mistaken—at least I was informed by Mr. Schenker, of your staff, that you insisted

upon that opinion being rendered and you fixed Friday as the deadline, and Mr. Schenker spoke to me on Saturday, and it was only when I told him that Mr. Whitney would have it Saturday afternoon, that I was relieved of being constantly called on the telephone to find out when my opinion was going to be given—there was constant pressure on me to get that opinion out.

Mr. PECORA. Will you continue pointing out the modifications in the form of questionnaire that were discussed at these two conferences that were held by our representatives with you and Mr. Whitney?

Mr. REDMOND. There was no change in subdivision (g) of the first major section. In the second major section, subdivision (B), the subheading *a* in that was changed by striking out the words "excluding bonds, debentures, and notes" and striking out the words "or credit accounts".

Mr. PECORA. That modification was suggested by either you or Mr. Whitney, was it not?

Mr. REDMOND. We pointed out the practical impossibility of answering the question as it was originally presented.

Mr. PECORA. And pointed out that to answer that question as originally presented would involve the expenditure of a great deal of time and money by the members?

Mr. REDMOND. True.

Mr. PECORA. And our representatives immediately recognized that and agreed to modify that question?

Mr. REDMOND. Not immediately.

Mr. PECORA. They did before the conference was over, did they not?

Mr. REDMOND. After 6 hours; yes.

Mr. PECORA. They permitted themselves the right to debate the question with you, did they not, but they finally agreed to adopt the views of yourself and Mr. Whitney?

Mr. REDMOND. Yes, sir.

SUBDIVISION (b). It was indicated that that would probably be dropped; and the subheading, the separate paragraph which purported to ask the members of the exchange to state which of their customers resided in New York City, was likewise eliminated.

In regard to Subdivision (C), so the record will be informative, it seeks information from the odd-lot houses in regard to the number of shares bought or sold by them during certain days in this year. We agreed that we would consult the odd-lot houses and find out whether they wished the exchange to act as a conduit in the giving of that information to the committee, leaving it up to them to determine whether they would follow that method or supply the information direct to the committee.

Subdivision (D) was changed so as to read:

Obtain from all members a statement of the total number of shares bought and the total number of shares sold by them on the exchange during the period from April 1, 1933, to July 31, 1933, inclusive, for their own account or account of their firms and the account of each partner of their firms.

Shall I go on?

Mr. PECORA. Go ahead.

Mr. REDMOND. Subdivision (E). There was a long discussion about that, but no final conclusion. At the end, Mr. Flynn, who took

the burden of the discussion, indicated that he might consider changing the dates which now appear as of July 31, 1929, 1930, 1931, and 1932, and July 15, 1933, to December 31 of 1928, and subsequent years to June 30, 1933—

Mr. PECORA. Pardon me. Did not Mr. Flynn indicate that the adoption of those dates, namely, December 31, 1928, the same date in the years 1929, 1930, 1931, and 1932; and the date of June 30 in the year 1933, would be agreed to by us?

Mr. REDMOND. He withheld final decision on that. We pointed out to him that the information for the December dates from 1929 on had been already called for or was in process of being furnished to the Internal Revenue Department, and we pointed out that to go back another year to December 31, 1928, would impose a very considerable additional burden on the members of the Exchange.

Mr. PECORA. Did not Mr. Flynn specifically indicate agreement with that suggestion that those dates be changed from July 31 of each year to December 31?

Mr. REDMOND. He did not, Mr. Pecora. I have my original memorandum here in which I noted the agreements, and I do not find that that is agreed to.

In subdivision 2 of subdivision (E), the question reads, so as to make the record informative:

The total debit balances in such marginal accounts.

We pointed out that, first of all, there was grave doubt as to what constituted a marginal account on a particular date. Mr. Pierce has this morning illustrated that an account that has a debit balance on a particular date may in fact be a cash account. It is also true that on any particular date an account which, by its nature, is really a margin account, may have no balance, either debit or credit, or may have a credit balance.

Mr. PECORA. Do you maintain that it is a practical impossibility for a stock brokerage firm to tell this committee the number of marginal accounts carried on the books of the firm within a certain given period of time, and the number of so-called cash accounts?

Mr. REDMOND. I am advised by practical men in the business that if you make it as of a particular date they might, by analysis of their ledgers, answer the question.

Mr. PECORA. Was not this question modified so as to call for the daily debit balances in such marginal accounts as of those dates, the term "those dates" referring to the specific dates set forth in the preceding question?

Mr. REDMOND. But I was addressing myself to the difficulty of determining what is a margin account on a particular date. In other words, if you take as of a particular date, the broker may have a record of whether the accounts have a debit balance in them, no balance, or a credit balance. A credit balance may be a margin account. You have to analyze the account to find out whether it is or not.

Mr. PECORA. Don't you think the brokers could give us a reasonable interpretation of that and give us answers correspondingly?

Mr. REDMOND. Mr. Pecora, I suggested to Mr. Flynn that that first subdivision be made to read, "Give the total number of accounts having a debit balance as of a certain date", but Mr. Flynn did not find that suggestion acceptable.

Mr. PECORA. Go ahead.



Mr. REDMOND. Still, on this subdivision 2, when you get to the term "debit balances", do you want the gross or the net debit balances—because frequently a firm carries for a certain customer a debit balance in a long account and a credit balance in the short account? Do you want the net debit balance or the gross?

Mr. PECORA. Was that discussed in these conferences?

Mr. REDMOND. It was.

Mr. PECORA. And what did you and Mr. Whitney advocate that the question should call for?

Mr. REDMOND. We suggested that the question be changed to ask simply what number of accounts had a debit balance and then take simply the total of such debit balances.

Mr. PECORA. How would you phrase a question that would be understood by the brokers as calling for data showing on a given date the number of margin accounts carried by the broker and the number of cash accounts carried by the broker?

Mr. REDMOND. I think if you want that information you would have to ask that direct question and have the brokers analyze each account to see whether it is a margin account or not.

Mr. PECORA. Do you think that would present any difficulty to the individual broker?

Mr. REDMOND. I could only answer second hand; and you have in this room a number of practical men——

Mr. PECORA. Well, answer the second, then.

Mr. REDMOND. I should prefer not to give just an opinion. I do not consider myself an expert on the mechanics of the brokerage business.

Senator COUZENS. Perhaps Mr. Pierce can answer that question.

Mr. PIERCE. That involves the point, Mr. Pecora, that I raised a little while ago. Practically all debit balances represent margin accounts, and the debit balance in one of those accounts may be paid off 2 or 3 days later. It may be a pure cash account, but the debit balances in practically 95 cases out of 100 represent margin accounts.

Mr. PECORA. With that understanding, that we do not want or would not require the exact number of margin accounts carried on your books at a given date, as distinguished from cash accounts, the result would be a very fair approximation of the answer, would it not?

Mr. PIERCE. Yes, sir. Now, may I add to that——

The CHAIRMAN. Suppose the question called for the best possible estimate, not an exact statement of the number, but an estimate. That would give you leeway enough, would it not?

Mr. PIERCE. In my opinion the accounts of any house—the estimate would fall within 5 percent of absolute accuracy. If you only want the number of cash accounts in our office today, under our system of bookkeeping, although we have about 26,000 accounts in seven different offices in the United States, we probably could tell you exactly within 4 or 5 hours. If you asked us today which of our accounts were margin accounts and which were cash accounts a week ago, we would have to go through our ledgers; and while many of the accounts we would not have to analyze, because a number of them are sufficiently well known to us to determine by merely glancing at the heading which was margin and which was cash, it would require at least a passing glance at every one of our 26,000 accounts.

Mr. PECORA. But you could furnish that information with regard to a current period of time?

Mr. PIERCE. Today we could tell you within a very few hours how many are cash and how many margin.

Mr. PECORA. How much time would be required to give us the same information with respect to a specific date some time in the past, not with absolute accuracy, but allowing for the 5 percent latitude that you referred to before, giving you the benefit of that?

Mr. PIERCE. Only a very few weeks, Mr. Pecora.

Mr. REDMOND. I would like to put on the record here that the suggestion was made to Mr. Flynn that this question be changed so as to call for estimates, to frankly call for estimates, but Mr. Flynn was unwilling to adopt that suggestion.

Mr. PECORA. My information is, Mr. Redmond, that it was representatives of the exchange that insisted upon accuracy in the returns to these questions, and not our representatives that insisted upon that accuracy.

Mr. REDMOND. Mr. Pecora, we insisted upon accuracy if you ask a definite question. If you ask for an estimate—and you will notice in that subdivision (*a*), which is the question to be answered by the exchange, we agreed upon estimates. If you ask us for definite information we have got to give an accurate answer. If you ask us for an estimate, we can give you an estimate.

Mr. PECORA. Will you go ahead, Mr. Redmond, and refer to whatever other modifications were discussed?

Mr. REDMOND. Subdivision (*f*):

Obtain from each member and member firm a statement showing whether member firm or any agent acting for such firm or any partner thereof participated in the profits and/or losses resulting from the exercise of any option—

I beg your pardon. This was the suggestion which was made on our behalf and, I understood, tentatively agreed to. "An option of 10,000 shares or more in any single security during the years 1929 to 1933, inclusive."

Mr. PECORA. Our representatives agreed to the suggestion, at least the limitation in that question as to participation in an option of 10,000 shares or more.

Mr. REDMOND. My record indicates that they took a receptive attitude toward it, but it was not finally agreed to. Those things which were finally agreed to I changed on my record where the suggestion seemed to meet with approval.

Mr. PECORA. All right.

Mr. REDMOND. We had a great deal of discussion in regard to subdivisions (*g*), (*h*), and (*i*), and all three of those questions were withheld for further consideration by Messrs. Flynn and Schenker.

Mr. PECORA. It was in connection with the discussion relating to those questions that you indicated you would define a pool for the purpose of reference to a pool in the questionnaire.

Mr. REDMOND. As to some of them.

Mr. PECORA. And that definition has not yet been forthcoming.

Mr. REDMOND. It became academic, as I say. If you want it I will furnish it.

Mr. PECORA. I thought you were going to give it.

Mr. REDMOND. If you still want it, I will be delighted to furnish you.

Mr. PECORA. We have been trying to get a definition of a pool from many witnesses who have appeared before this committee. We continued our efforts up until yesterday, and I, for one, would be personally grateful to any representative of Wall Street institutions that will give this committee a definition of a pool.

Mr. REDMOND. I will furnish it to you today—or I would even take a shot at doing it right now, if you want.

Senator COUZENS. Let us have it now.

Mr. PECORA. All right; we will have it now.

Mr. REDMOND. I would say that a pool is an agreement between several people, usually more than three, for the purpose of trading actively in a single security.

I would say that a syndicate is an agreement between several people, usually a much larger number than in the case of a pool, for the purpose of buying or selling or dealing in a security or securities, not solely for the purpose of actively trading in them.

And I would say that a joint account is an account in which several people have joined together for the purpose of buying or selling securities generally, not concentrating on a particular security.

Senator COUZENS. And simply for profit?

Mr. REDMOND. For profit or for other purposes that it may be engaged in. It might be a group in a family that wanted to make sure that each member of the family got a fair aliquot part in their holdings.

Senator COUZENS. Would stabilization be a factor in it?

Mr. REDMOND. It might, but rarely in a joint account, I should think. That would come more closely to being a syndicate or a pool.

Senator ADAMS. Yesterday it was suggested that there was some taint of some kind attached to the term "pool." I think Mr. Wiggin intimated that he was very reluctant to have a certain transaction designated as a pool. But from your definition I do not observe just why a syndicate would be free from taint and a pool be tainted. Can you point out the differentiation?

Mr. REDMOND. I personally do not see any reason why either should be considered as tainted. I would say this, that it has occurred in the past that dishonest people have traded actively in securities, and at the same time they gave out false information in regard to the security in which they were trading.

Senator ADAMS. Dishonest people have been in syndicates and have been in joint accounts; so that does not differentiate them.

Mr. REDMOND. I think dishonest people have been everywhere, Senator.

As I said, we arrived at no agreement on subdivisions (g), (h), and (i).

In regard to (j) we pointed out, first of all, the difficulty of separating the gross commissions on stock transactions from gross commissions on bonds or debenture or note transactions. Mr. Flynn therefore agreed to strike out from subdivision 1 of (j) the words "excluding bonds, debentures, and notes", and to strike out in toto subdivision 2.

We pointed out to Mr. Flynn that unless there was some definition of the term "customers" and some limitation upon what was meant



in this case by securities, the resulting figure would be completely false. For instance, an out-of-town firm—members of the exchange may charge an individual who is their customer the stock exchange commission, but the out-of-town firm to effect the transaction in New York pays part of that commission to the New York clearing house, the house that carries the transactions in New York for them. That house, in turn, may pay part of the commission to the member of the exchange who executes the order on the floor of the exchange.

Now, each one of those members of the Exchange is receiving a commission from a customer, because the commission houses are the customers of the floor brokers, and the New York clearing firms count the out-of-town firms as their customers. Therefore, a single commission, if half of it were paid to the clearing house in New York and a floor brokerage paid in addition, and each one of them reported it, you would have a duplication which would multiply even the gross commissions. So it would produce a completely false statistic.

Mr. PECORA. How false would it be?

Mr. REDMOND. Almost impossible to say, Mr. Pecora. But at least, I should think, on the average, by 30 or 40 percent.

Mr. PECORA. Is that your opinion, Mr. Pierce?

Mr. PIERCE. I would not suppose that over the past year the average—of course, this market is more or less of a guess, perhaps naturally—but over the past 2 years the average nonmember commission would be something like \$13 or \$14. The wire house charges to its out-of-town member connection anywhere from 40 to 50 percent as a nonmember commission. The New York Clearing House pays to the floor broker who executes the order from \$1.75 to \$2.50—is it, Mr. Redmond? Our books show that the average that we paid in 1932 to the floor broker, I think, was about \$1.90.

Senator COUZENS. You mean by that per share?

Mr. REDMOND. A hundred.

Mr. PIERCE. \$1.90 a hundred.

Senator COUZENS. Hundred dollars?

Mr. PIERCE. A hundred shares. Which means that if each group, that is, out-of-town house, clearing broker in New York, that is, wire house, and broker executing the order on the floor, were all to report their earnings under the commission head, the chances are that it would be out more than, well, certainly more than 50 percent.

Mr. PECORA. Now, Mr. Redmond, with regard to question (J), subdivisions 1, 2, and 3, thereof, was it not indicated to you in these conferences with our representatives that we would modify those subdivisions 1, 2, and 3 of question (J) so that they would read as follows:

1. Annual gross charges to customers for commissions for purchase and sale of securities.

2. The annual gross charges to customers for interest.

3. A detailed annual income statement showing receipts and disbursements by classification.

Mr. REDMOND. That is true, but you asked whether we reached an agreement. The answer is that we did not agree upon it, because Mr. Whitney took the position that it would be highly improper to be a party to furnishing statistics that he knew would be misleading and false.

Mr. PECORA. You saw what information was desired in the form of those questions as I have just read them, did you not?

Mr. REDMOND. I don't know; frankly.

Mr. PECORA. Well, what is there unintelligible in this question: "Give the annual gross charges to customers for commissions for purchase and sale of securities"?

Mr. REDMOND. First of all, I pointed out the possibility of the duplication in these reports.

Mr. PECORA. Apart from duplication, the question itself is a simple one, is it not?

Mr. REDMOND. No; I would not say so. When you get to the question of the sale of securities you are asking the members of the New York Stock Exchange to give the gross charges for commissions on the sale of all securities. Now many of the member firms are members of the out-of-town exchanges. Many of them deal over the counter for commissions. Therefore, you would have gotten as the gross annual charges from members of the New York Stock Exchange, and therefore presumably, and in the minds of the public, for the transactions on the New York Stock Exchange, the commissions of the security business of the entire United States.

Mr. PECORA. Is there anything in the question there that shows that the answer to such a question would be considered as the gross charges to customers for commissions on transactions executed through the New York Stock Exchange only?

Mr. REDMOND. I think the implication is clear when the question is asked only of the members of the New York Stock Exchange.

Mr. PECORA. Is there anything else about that question that you think is misleading?

Mr. REDMOND. I frankly see no point in getting a gross statement of commissions.

Mr. PECORA. But the question itself is simple, is it not? It is a question that calls for a statement of the gross charges to customers for commissions?

Mr. REDMOND. Yes. The question in form is simple, but as I pointed out, it would produce a false and misleading statistic.

Mr. PECORA. False and misleading in what respect?

Mr. REDMOND. I have already stated, Mr. Pecora, in the sense of duplication, in the sense also that it would call for the commission business on all forms of security transactions, and the implication that flows from the fact that the question is addressed only to members of the New York Stock Exchange.

Senator COUZENS. It would simplify matters if we used "net charges", and then that would eliminate duplications so far as your division of commissions is concerned?

Mr. REDMOND. It should be "net", Senator Couzens, and I think it ought to be in regard to purchase and sale of securities on the New York Stock Exchange if it is being addressed to members of the New York Stock Exchange; but I am fearful that an answer to any such question would entail an enormous amount of work.

Mr. PECORA. Was any such suggestion made to our representatives with regard to that modification of this question?

Mr. REDMOND. No; we pointed out the difficulties, and Mr. Flynn took the position that, admitting that the thing might not be accu-

rate, at least it would be a good start toward getting statistics, and our discussion ended at that point, because we could not agree with him to produce for him statistics which we knew would not be accurate.

Mr. PECORA. What is there difficult about answering subdivision 2 of question (J) which calls for the annual gross charges to customers for interest?

Mr. REDMOND. We had very little discussion about that, because, frankly, I did not know how difficult it would be for members of the exchange to answer that question. I believe it can be answered much more easily than subdivision 1.

There is, of course, another danger of duplication that would have to be guarded against, because an out-of-town member having customers with debit balances on his books charges them interest. He carries those securities through a New York correspondent, who in turn has a debit account standing in the name of the out-of-town firm. Now the New York firm would report the interest charge on that debit, and in turn the out-of-town man would show the same interest charged to his customers.

Mr. PECORA. Don't you think that could be easily guarded against by the individual broker or firm making return to this questionnaire, pointing in the return such duplications and approximating the extent of such duplications?

Mr. REDMOND. I do not know that approximation is possible. I wouldn't think—

Mr. PECORA (interposing). Would it be possible, Mr. Pierce?

Mr. PIERCE. If I may make a suggestion—and I want to repeat that I hope that you all will believe that we are here to be helpful. I have not given this close study, but the thought has just come to me that perhaps you come nearer to accuracy in this way than any other without absolute analysis that would take many, many months, and that is to permit the New York clearing houses to report and not to have the out-of-town houses which clear through the New York clearing houses report. That would eliminate duplication in some respects.

Mr. PECORA. We have no objection to that. Now, will you resume?

Mr. REDMOND. I think this should go on the record, Mr. Pecora: There are a number of New York houses that clear through other New York houses. So Mr. Pierce's suggestion would be to get the information only from such New York houses as clear for themselves or for the accounts of others.

Senator COUZENS. Is that correct?

Mr. PIERCE. That is my suggestion to Mr. Redmond.

Mr. PECORA. Now, will you resume the history of the discussion with regard to the original questionnaire, Mr. Redmond?

Mr. REDMOND. Subdivision 4, we simply pointed out that the net income statements of the members of the exchange are of course already on file with the United States Government.

Mr. PECORA. Subdivision 4 we agreed to eliminate, did we not; that is, our representatives did?

Mr. REDMOND. I have no such record.

Mr. PECORA. Now pass on to a consideration of question denominated as (K) in the original question.



Mr. REDMOND. We agreed that under subdivision 1 we would give the names of the members who acted as specialists in the active stocks as of a current date and as far back as possible, preferably July. We have since verified and find that we cannot give it as of a date as far back as that. We will give it as of the current date where the records now exist. It was understood that for the inactive stocks we would not have to give the names of the specialists.

Mr. PECORA. Was not that suggestion agreed to by our representatives, Mr. Redmond?

Mr. REDMOND. That was agreed to.

Mr. PECORA. It was; all right.

Mr. REDMOND. (K-2) We furnished the information by giving them copies of the constitution and rules of the exchange down to date.

Subdivision 3 was changed by inserting simply the word "formal" in front of the word "warning" in the second line.

Mr. PECORA. And we agreed to that change?

Mr. REDMOND. It was, I think, Mr. Flynn's suggestion.

In (L-1) it was changed to read "the number of persons employed by the committee on publicity of the New York Stock Exchange."

Mr. PECORA. And that was agreed to by our representatives, was it not?

Mr. REDMOND. Yes; it was.

Subdivision 2 was eliminated by mutual consent, as the library committee ceased to exist prior to 1925.

Subdivision 3 was unchanged.

Mr. PECORA. When you say it was unchanged—there was no dispute raised by either side?

Mr. REDMOND. It was agreed to.

Subdivision 4 was changed so as to read "the total yearly expenditures", rather than "the total yearly appropriation."

Mr. PECORA. And that was agreed to by us?

Mr. REDMOND. Entirely.

Subdivision 5 was changed so as to read as follows:

The approximate number of president's addresses or statements, year book, annual reports of the president, and similar publications circulated or distributed by the exchange or any of its subsidiaries.

Mr. PECORA. And that was agreed to by us?

Mr. REDMOND. I so understood.

Subdivision 6 there was no question about.

Subdivision 7 was changed so as to read:

The number of copies of the two books, The Work of the New York Stock Exchange, and Short Selling, written by the economist of the New York Stock Exchange, which were purchased by the exchange or any of its subsidiaries and were distributed gratis and the general nature of such distribution.

Mr. PECORA. And that was agreed to, was it not, by us?

Mr. REDMOND. Yes.

Subdivision 8 was stricken out by mutual consent.

Subdivision 9 was agreed to by both parties.

Subdivision (N)——

Mr. PECORA. You mean question (N)?

Mr. REDMOND. Question (N), subdivision 1, was changed so as to read as follows—

The names of bond issues listed on the New York Stock Exchange which have been in default in the payment of principal or interest during such period.

Mr. PECORA. We agreed to that, did we not?

Mr. REDMOND. Yes; as soon as we pointed out that default might exist for all sorts of different reasons.

Mr. PECORA. Yes.

Mr. REDMOND. Subdivision 2—

A list of members or member houses of the New York Stock Exchange who were suspended for insolvency.

Mr. PECORA. We agreed to that?

Mr. REDMOND. It is a change of words, and it was your own suggestion, of course, Mr. Pecora.

Mr. PECORA. We agreed to the form of the question suggested by you or Mr. Whitney.

Mr. REDMOND. We were simply making it more accurate, that is all.

Mr. PECORA. Yes.

Mr. REDMOND. In subdivision 3 we pointed out that you asked for a list of members who were suspended, and we asked if you did not also want a list of those who were expelled, and that was treated as an oversight on your part, so we agreed to put it in.

Subdivision 4 was by mutual consent stricken out.

So was the intervening paragraph between questions (M) and (N), and with regard to question (N) we agreed that we would give the list of the committees of the New York Stock Exchange as they existed each year after the annual election, when these standing committees are regularly appointed.

Mr. PECORA. When this printed document, marked "Exhibit 26", in evidence of this date was mailed by Mr. Whitney, as president of the exchange, to the members of the exchange none of the changes in the form of any of the questions embodied in the original questionnaire were shown?

Mr. REDMOND. We were simply printing the exhibit which was attached to your letter, Mr. Pecora.

Mr. PECORA. Without the modifications that had been agreed upon; isn't that so?

Mr. REDMOND. Without the modifications that had been agreed upon; yes.

Mr. PECORA. Yes.

Mr. REDMOND. But remember, there were many questions, as my letter to Mr. Whitney points out, that were still open for discussion on which we had had no final agreement, and I must say that throughout the conference Mr. Schenker and Mr. Flynn, while indicating agreement between Mr. Whitney and myself, certainly reserved the right for you to pass upon what they had agreed to.

Mr. PECORA. And then you finally came to the conclusion and rendered to the exchange an opinion setting forth that conclusion that the exchange had no right or authority to require its members to make returns to the questionnaire?

Mr. REDMOND. My opinion has already been put into the record.

Mr. PECORA. And the opinion is to that effect in part?

Mr. REDMOND. It is.

The CHAIRMAN. That would have applied no matter what changes were made or modifications in the questionnaire?

Mr. REDMOND. As far as the legal proposition was concerned, Senator?

The CHAIRMAN. Yes.

Mr. REDMOND. I do not think any question of the changes in it would have changed the legal opinion; no. I point out, however, Senator Fletcher, that in a number of instances during the course of this investigation, when either the committee itself or its counsel have indicated to the stock exchange irregular practices which might improperly affect the market, we have not hesitated to seek that information and ascertain the facts, and we have done it entirely at our own expense.

We have just completed, as Mr. Pecora knows, an examination of the charges that pool activities in the alcohol stocks in the early part of this year were responsible for the rapid rise of the market. We investigated through our accountants over 100 firms, and the detailed reports have been furnished to Mr. Pecora.

Mr. PECORA. Does not the exchange from time to time send out questionnaires of its own to its members and require them to make returns thereto?

Mr. REDMOND. Yes.

Mr. PECORA. Under what right or authority does the exchange do that which you think the exchange does not possess or would not possess for the purpose of circulating a questionnaire on behalf of this committee?

Mr. REDMOND. I have pointed out—I do not know whether anybody has taken the trouble to read my opinion, but I think my opinion makes perfectly clear the difference between the two. I pointed out in the next to the last paragraph the undoubted power under the constitution of the exchange of the governing committee to secure information. Suppose I read these two paragraphs?

Mr. PECORA. If you will.

The CHAIRMAN. I think it would be very well. We received that only this morning. We have not had time to read it very carefully; at least I have not. This came in this morning. This is the first time I ever saw the opinion.

Mr. REDMOND. I was not aware that that had not been generally circulated, Senator.

The CHAIRMAN. Yes; all right.

Mr. REDMOND (reading):

Under the constitution of the exchange the governing committee has the power to secure information by questionnaire from the members of the exchange. This power has been used whenever the governing committee felt that it was necessary to investigate irregular transactions or practices which might improperly affect the market. Without attempting to record all of the instances in which questionnaires have been sent to members of the exchange in recent years, I should perhaps remind you that it was used in the alleged corner in Wheeling & Lake Erie stock some years ago; in the Manhattan Electrical Supply Co. cases in 1917 and 1930; and for the statistics in regard to short selling not only at the time of the panic in 1929 but again currently since the early part of 1931. In each instance where the Senate Committee represented to the exchange that the market had been affected by irregular



or unfair practices, this power was invoked to secure the facts, I refer, of course, to the special questionnaire sent in regard to the short position on April 8, 1932; to the investigation of the trading in Kreuger & Toll securities at the time of Ivar Kreuger's death; and to the investigation, recently concluded, of the rumors that pool transactions in the so-called alcohol stocks had affected the market in the early part of this year. In other instances, where the testimony before the Senate Committee seemed to have a direct bearing upon the conduct of members of the exchange, the governing committee has used its power to ascertain the facts by requiring the members of exchange to furnish it with information. These instances, however, furnish no precedent for the present case.

The information sought by the proposed questionnaire has no direct bearing on market practices or on the conduct of members of the exchange. On the contrary, it consists primarily of what might be described as general statistics.

Mr. PECORA. Did you want to read any other portion?

Mr. REDMOND. I thought I would read my conclusion. It is in the next paragraph.

Mr. PECORA. All right.

Mr. REDMOND (continuing):

There is no doubt that a committee of Congress has power to secure, by subpoena, information which is necessary or pertinent to the framing of legislation. Our courts have upheld the existence of this power and by liberal interpretation have given legislative committees the right to seek any information which is proper and relevant to the work of the Congress. Although the Senate committee may directly seek information by requiring citizens to testify before it, we have found no authority which would support the theory that it has power to compel one citizen to secure for its use information from another citizen.

The Committee's counsel frankly recognizes that the information sought by this questionnaire is not in the possession of the exchange. A subpoena, therefore, served upon the exchange would not produce the information which he seeks. He likewise realized that he may, if it is proper and relevant to the pending inquiry, secure the information which he desires by serving subpoenas upon the individual members of the exchange and by compelling them to appear before the Senate committee in Washington. Instead of using this recognized method, he has asked the exchange to secure this information for him by sending a questionnaire to its members. He urges that this procedure be followed, as it will be "the speediest and most convenient method" of securing the information. In other words, he wishes the governing committee of the exchange to use its power to compel the members of the exchange to answer the questions contained in the questionnaire. Under the constitution of the exchange any member who fails to furnish information required of him by the governing committee may be suspended or expelled. If, therefore, the exchange should undertake to send out the proposed questionnaire, the members of the exchange would not only be compelled, at the risk of being disciplined by the governing committee, to answer, but they would also be effectively deprived of the right, which they would possess if they were subpoenaed to appear before the Senate committee, to raise the question of whether the information sought from them was proper and relevant to the pending investigation.

Much as the exchange may desire to facilitate the investigation which the Senate committee is conducting, I do not believe that it should even for this purpose, use a method which will deprive the members of the exchange of a substantial right. For this reason, it is my opinion that the exchange should refuse to send to its members the suggested questionnaire.

Mr. PECORA. That opinion would apply to any questionnaire proposed by this committee to be sent by the exchange to its members then, would it not?

Mr. REDMOND. Seeking statistical information or such like data.

Mr. PECORA. Seeking any information?

Mr. REDMOND. No, Mr. Pecora; because when this committee represented to the exchange that there was to be a great bear raid on

the market in April 1932 we did send out a questionnaire and we did ascertain the facts.

Mr. PECORA. Does not the exchange in your opinion possess the same power to address a questionnaire to its members in the form generally or substantially of the questionnaire that was discussed and modified to its members at this time?

Mr. REDMOND. I don't quite understand your question. The power, of course—

Mr. PECORA. The exchange has the power and exercises it from time to time to address questionnaires to its members?

Mr. REDMOND. To secure information which is necessary or relevant to the government of the exchange or to prevent improper practices on the exchange. That I agree to heartily; yes.

Mr. PECORA. And is that the only kind of questionnaire that, in your opinion, the exchange has the right or the power to submit to its members?

Mr. REDMOND. The wording of the constitution is very broad. I would like to see the particular case before I give an opinion beyond that point.

Mr. PECORA. If the wording of the constitutional provision in the constitution of your exchange is so broad, why did you place any limitation upon it in the opinion that you rendered to the stock exchange which furnished part of this pamphlet marked "Committee's Exhibit 26"?

Mr. REDMOND. Because as I point out, Mr. Pecora, the information which is being sought here from the members would be required of them under the danger of being expelled from the exchange, whereas if they were subpoenaed they would have the right to come here and claim that the information sought from them was not relevant to this inquiry.

Mr. PECORA. You say in your opinion under the constitution of the exchange the governing committee has power to secure information by questionnaire from the members of the exchange. Is there any limitation on the information that the governing committee has power to secure by questionnaire?

Mr. REDMOND. I would prefer not to express a general opinion on that question, Mr. Pecora. I do not want to establish a precedent that may annoy me in the future.

Mr. PECORA. You say further:

This power has been used whenever the governing committee felt that it was necessary to investigate irregular transactions or practices which might improperly affect the market.

Did you indicate that to be a limitation upon the kind of questionnaire that under its constitution the governing committee of the exchange has the power to send to its members?

Mr. REDMOND. That opinion does not purport to consider the scope of the power, Mr. Pecora. As I just said, I pointed out—

Mr. PECORA (interposing). That is why I asked you if you intended that language to indicate a limitation.

Mr. REDMOND. I think the letter is perfectly clear as it stands. There is no implication of a negative in it.

Mr. PECORA. Can't you answer the question, Mr. Redmond, directly?

Mr. REDMOND. The opinion did not purport to consider the question that you asked, Mr. Pecora.

Mr. PECORA. All right; that is an answer. Now, the questionnaire that we proposed and which was discussed and to which some modifications at least were agreed to, if I properly understand your testimony this morning, calls for statistical data, among other things, does it not?

Mr. REDMOND. Yes.

Mr. PECORA. Do you think that the Exchange has no power to submit to its members a questionnaire calling for such statistical data under its constitution?

Mr. REDMOND. "For such statistical data"? I doubt it.

Mr. PECORA. Why? What provision in the constitution of the exchange is there which would preclude the exercise of such a power by its governing committee?

Mr. REDMOND. Not in express words, but to place an enormous burden of expenditure upon the members to produce statistics which could be demonstrated were completely inaccurate, I doubt whether any court would allow the governing committee, if it so lost its reason, to carry it out.

Mr. PECORA. Wasn't this the situation that we had since Mr. Whitney received the original questionnaire with my letter under date of September 30 last, that at the request of Mr. Whitney, conveyed to me by his letter dated October 5, 1933, and which is part of the printed pamphlet marked "Committee's Exhibit 26", conferences were held between him and yourself on the side of the exchange and Mr. Flynn and Mr. Schenker on the side of the investigating staff of this committee, for the purpose of reaching some conclusion with respect to the form of the questionnaire?

Mr. REDMOND. There were such conferences.

Mr. PECORA. And those conferences, lasting hours, were held, and certain agreements arrived at, at least informally, with respect to modifications of the original form of the questionnaire.

Mr. REDMOND. Correct.

Mr. PECORA. Then, under date of October 14, some 2 weeks after the receipt of the original questionnaire by Mr. Whitney, you rendered an opinion, as counsel to the exchange, in which, in substance, you advised the exchange that it had no power to send out the questionnaire at all and require its members to make returns thereto.

Mr. REDMOND. If you will change the date so as to make it appear that your letter to Mr. Whitney, although dated September 30, was not received until October 2, the answer is yes.

Mr. PECORA. That was because of the intervention of a Saturday and Sunday. Mr. Whitney was not at his office on Saturday.

Mr. REDMOND. It was not received in the mail until Monday morning, October 2.

Mr. PECORA. We sent it out the preceding Friday, September 30. With that modification of dates only in my question, that is the fact?

Mr. REDMOND. Yes.

Mr. PECORA. So that whatever time was spent in discussing the form of the questionnaire and in discussing changes in the questionnaire was all spent in vain, because ultimately you advised the exchange that it had no power to send any such questionnaire, regard-



less of any modifications in its form, to its members and require them to make returns thereto.

Mr. REDMOND. That is true; but, Mr. Pecora, you were aware of the fact that that fundamental question was involved, because when you called me on the telephone late in the afternoon of October 9 and said you regretted you could not see Mr. Whitney personally in regard to the questionnaire, and urged me to arrange an appointment with him for the following morning for Mr. Schenker and Mr. Flynn, it was then clearly understood that I was still considering the question whether the exchange could or could not, as a legal matter, send out the questionnaire.

Mr. PECORA. You recall that in our conversation I indicated that I was willing and anxious to meet Mr. Whitney that same day, Saturday, or on the following Monday, but that I was informed that Mr. Whitney would not be in town Saturday, and that he would be so occupied on Monday that he could not meet me; and do you recall, therefore, that in answer thereto I said, then, I would have to appear before the committee on Tuesday, October 3, at public sessions of the committee to be held here in Washington, and would remain in Washington for the purpose of attending such sessions continuously thereafter the balance of the week?

Mr. REDMOND. Our conversation took place, of course, Monday afternoon, but your statement is perfectly true, that you were willing to try to see Mr. Whitney on Saturday or Monday, and that he found it impossible on account of his other engagements.

Mr. PECORA. I was even willing to see him on Sunday.

Mr. REDMOND. I think we have all had to do things on Sunday in the course of this investigation.

Senator COUZENS. May I ask whether or not all the information the stock exchange gets from its members is available to all the members of the exchange?

Mr. REDMOND. No.

Senator COUZENS. In other words, under the constitution of the New York Stock Exchange, the information it gets from its members is available only to the controlling committee?

Mr. REDMOND. To the governing committee and the standing committees of the exchange.

Senator COUZENS. And cannot be obtained by other members of the exchange?

Mr. REDMOND. Not unless they have some direct interest, and the standing committee permits them to.

Mr. PECORA. Is it now your opinion that the stock exchange should not send this questionnaire that has been proposed by this committee, with such modifications thereof as have been agreed to or discussed?

Mr. REDMOND. I still stand by my original opinion, Mr. Pecora, that it would be depriving the members of the exchange of a substantial right. Any one of them may feel that some of these questions are an invasion of his privacy, which is protected by the Constitution, and may urge before this committee that the information is not relevant or proper to its investigation.

Mr. PECORA. Do I understand that the governing authorities of the exchange will be guided by that opinion, so that it would be futile to ask them to send out any questionnaire along the lines proposed, with such modifications as might be agreed upon?

Mr. REDMOND. I cannot undertake to prophesy the future action of an institution like the exchange, Mr. Pecora.

The CHAIRMAN. Mr. Redmond, let me ask you this. If that is the position you hold, and assuming that would be agreed to by the governing board, would you advise the exchange that it might, then, within its power and authority, submit this questionnaire to its members with the statement that they are not ordered nor directed to answer the questions, but that the exchange recommends that they answer them if feasible, and leave it to the discretion of the members as to whether they answer the questionnaire or not, without imposing any penalties upon them in case they did not?

Mr. REDMOND. Senator, Mr. Whitney not only was receptive to such a suggestion, but actually, in the case of question (C) which sought information from the odd-lot houses, suggested that we voluntarily undertake to approach those houses and find out whether they wanted us to act as a conduit of the information to this committee.

Mr. PECORA. There are only six odd-lot houses, are there not?

Mr. REDMOND. Yes.

The CHAIRMAN. What did they say?

Mr. REDMOND. I have only been informed casually. I believe some of them have taken the position that they would prefer to furnish this information directly, if it is necessary, as it is highly competitive information, the public disclosure of which might be harmful to them.

The CHAIRMAN. In those cases where the members refused to answer, and where you submit the questionnaire to them, we could, of course, subpoena those members.

Mr. REDMOND. You have undoubted power to do so.

The CHAIRMAN. It seems to me it would be entirely reasonable not to put all the members to the expense of coming here and testifying when this information may be furnished without that. If they are willing to do that without coming here, it is for them to decide, without your ordering or directing them to do anything, and imposing any penalties on them if they did not. And, of course, the returns would show what members declined, and in those cases we could issue subpoenas and bring them here.

Mr. REDMOND. I do not doubt, Senator, that practically all members of the exchange would be willing to open their books to representatives of this committee. They did so in the past, at the time Mr. Gray was counsel to this committee and was seeking information. I do not think there was a single member of the exchange that stood on his rights and required that his books be produced before the committee in Washington. They all voluntarily opened their books and allowed the representatives of this committee to get whatever information they wanted.

Mr. PECORA. Mr. Chairman, obviously for the committee to resort to such measures would require a tremendous amount of time. It would stretch through months, if not years. If accountants representing the committee were to go and examine the books of all the members of the exchange in their respective houses, the amount of time that would be required to obtain the data that such an examination was designed to obtain would be tremendous. It seems to me,

and it always has seemed to me, that the most expeditious and the cheapest method of obtaining this information would be for the members themselves to furnish it from their own examination of their own books and records, and that was the purpose, and essentially the purpose, as was set forth in my letter to Mr. Whitney of September 30 last, of our having framed this questionnaire, and entered into conferences with Mr. Whitney and his associates with regard to any modifications of the questionnaire, and requesting them to circulate it among their members. To say that members' books are open to the inspection of investigators employed by the committee is simply to say to this committee that you can spend the next 2 or 3 years examining those books, if you want to wait that long, for the results. It seems to me a much shorter cut could be taken, and from advices I have received informally from different members of the exchange, they would be willing to reply to our questionnaire and give us the information themselves, rather than have our accountants examine hundreds of such books and extract it from those books.

Senator COUZENS. May I ask, Mr. Redmond, if there is anybody here to speak for the New York Stock Exchange, other than yourself?

Mr. REDMOND. No. As a matter of fact, I came down merely as an observer, Senator. I did not expect at all to testify.

Senator COUZENS. It seems to me the chairman's suggestion is a very simple one, and I would like to have information from the stock exchange as to whether the chairman's suggestion can be carried out.

Mr. REDMOND. Of course, I assume that these questions which would clearly produce duplicated or false statistics would have to be modified, because I do not think the exchange would be justified in sending out a questionnaire which it knew was going to produce false figures.

The CHAIRMAN. We do not want that. What particular questions fall within your objections?

Mr. PECORA. We have been all over that, Mr. Chairman, and our representatives have indicated throughout, as far as those things have been reported to me, a willingness and a desire on the part of the representatives of the committee to agree to any proposal that would eliminate, to any substantial degree, any false information.

The CHAIRMAN. Of course, we do not want any false information.

Mr. PECORA. We are willing to obtain approximations. We do not insist upon absolute accuracy, because absolute accuracy would involve an expenditure of time and money wholly out of proportion to the results.

Mr. REDMOND. Mr. Pecora, the suggestion that these things frankly be made in the form of questions for estimate was made at our meeting, and Mr. Flynn was not satisfied with it.

Mr. PECORA. The modifications you have already mentioned show that we agreed——

Mr. REDMOND. As to some items.

Mr. PECORA (continuing). To obtain estimates instead of exact data.

Mr. REDMOND. As to some items, Mr. Pecora.



Mr. PECORA. What is the difference, Mr. Redmond? You tell us now that your opinion, submitted to the exchange, is that it has no power to send out any kind of a questionnaire.

Mr. REDMOND. But the chairman, Mr. Pecora, has suggested a different form, in which it would not be a questionnaire. It would be simply a voluntary transmission of this so-called "questionnaire" to the members, allowing each member to determine whether he wished voluntarily to furnish the information.

Mr. PECORA. Whether you call it a voluntary submission or whether you call it a questionnaire, it refers to the same thing.

Senator ADAMS. Mr. Pecora, if they are going to do it on a voluntary basis, you might just as well send it direct to the members of the stock exchange, rather than in a round-about way, if it is going to be purely voluntary.

The CHAIRMAN. I think we ought to have the recommendation of the exchange to its members, if it is willing to do it.

Senator ADAMS. It would depend somewhat upon the form in which the recommendation was made. It might be the recommendation of this committee would be more effective than the kind of recommendation the stock exchange would make.

Mr. REDMOND. I do not think so, necessarily, Senator.

The CHAIRMAN. I just wanted to see what their attitude was.

Mr. REDMOND. We did not see how we could use the power of the exchange to compel its members to furnish information.

Senator ADAMS. If, as a matter of fact, it was an improper thing, the members could answer to you that you have exceeded your authority.

Mr. REDMOND. They could; but, of course, our power is fairly drastic in regard to their business life.

Senator ADAMS. But you would not hesitate to advise them if there was any trespassing on their individual rights, that they did not have to answer.

Mr. REDMOND. I do not know. If it had to do with practices which were improperly affecting the market, I am afraid we would rather subordinate the rights of the individual members of the exchange.

Senator ADAMS. You would think that perhaps the stock exchange powers of investigation were somewhat broader than you intimate the powers of the committee are.

Mr. REDMOND. No, Senator. I would not say that, because I know of no power that is broader than the power of this committee to investigate.

Senator ADAMS. There have been some challenges made.

Mr. REDMOND. There have been in the past, and some that have been supported by the Supreme Court. But when I read those old cases and find that the personal liberty of the citizen was considered sacred, I think how many years have rolled by, and what changes time has brought.

Senator ADAMS. We are made conscious of that every day.

The CHAIRMAN. Did the governing board consult the members, and does it express the sentiments of the members in this opinion of yours?

Mr. REDMOND. The governing committee are elected by the members, and therefore act for them as a representative body, Senator.

Mr. PECORA. The question of the chairman was, Did the governing committee consult the members with regard to this particular questionnaire and the request of the committee for its circulation among the members before you rendered your opinion to the exchange with respect to its power to circulate the questionnaire?

Mr. REDMOND. No, Mr. Pecora. My opinion was rendered without consultation with anybody except my own partners.

Mr. PECORA. Is it fair to assume that the decision indicated by Mr. Whitney in his letter to me of October 16, 1933, which forms a part of this printed document called "Committee's Exhibit No. 26", was likewise adopted without first conferring with members of the exchange?

Mr. REDMOND. I do not know, Mr. Pecora. It was sent with the approval of the governing committee of the exchange, as is so stated in the first paragraph. As to whether individual members of the 1,375 members were personally consulted, that I would not know.

Mr. PECORA. Outside the information that may have been given to the gentlemen who attended the conference held yesterday, the conference that Mr. Pierce has referred to in his testimony here this morning, have any of these members of the exchange been told anything about the modifications of the original form of the questionnaire that were either agreed to by us or discussed by us with you?

Mr. REDMOND. Some of them have; because Mr. Schenker, over the telephone, sent or gave to certain individuals a typewritten record indicating the modifications. I did not receive a copy of that myself until yesterday at lunch time.

Mr. PECORA. I mean, did the exchange circulate among the members, or call to the attention of any of its members, the questionnaire, with such modifications as had been agreed to by us in conference with you?

Mr. REDMOND. No, Mr. Pecora; because 90 percent of the modifications that were agreed to affected the information that the exchange itself is to furnish to you, and we had still held up in the air all the major questions affecting the information to be secured from the members of the exchange.

Mr. PECORA. Do you feel that the exchange, or the governing authorities of the exchange, have no power to require its members to make returns to a questionnaire designed to develop, among other things, data indicating, out of the total volume of trading, the proportion representing trading on margin and the proportion representing trading for cash?

Mr. REDMOND. I really, Mr. Pecora, hesitate to express a legal opinion on such short notice. You are asking me to give my opinion as to the power of the governing committee of the New York Stock Exchange. That is a very important legal question, and I will not give a curbstone opinion on it.

Mr. PECORA. Mr. Redmond, was not some such question actually embodied in our questionnaire?

Mr. REDMOND. No, Mr. Pecora.

Mr. PECORA. Could you readily point to any provision of the constitution of the New York Stock Exchange or its regulations which would in your opinion deprive the governing authorities of the exchange of the power and right to circulate such a questionnaire among its members?

Mr. REDMOND. I cannot at the present moment, Mr. Pecora, but that verges again on the question of my legal opinion; and, as I said, I do not think it is fair or proper to ask me that question. I am counsel for the New York Stock Exchange, and you are asking me for a legal opinion upon one of its basic powers.

Mr. PECORA. I thought you considered that legal opinion in rendering the opinion that you submitted to the stock exchange under date of October 14 last.

Mr. REDMOND. On the contrary, the point at issue in my opinion was whether the exchange had the right to exact information from its members for the benefit of this committee and by so doing deprive the members of their right to state that the information was not relevant or proper to this inquiry, a right which they would have if they were subpoenaed to appear here; and, as I said at the conclusion of my opinion, I felt that the exchange, no matter how much it wanted to facilitate this investigation, did not have the right to deprive its members of the substantial protection which they would have if subpoenaed.

Mr. PECORA. To what extent do you think the exchange has the power or the right to cooperate with this committee in its desire to obtain the information generally called for by the proposed questionnaire?

Mr. REDMOND. It has the power and the right to cooperate, and has done so, Mr. Pecora, many times in the past.

Mr. PECORA. With regard to the question of giving us such cooperation for the purpose of enabling us to elicit and obtain the data that the questionnaire, in substance, calls for?

Mr. REDMOND. The power to cooperate would exist almost anywhere, Mr. Pecora.

Mr. PECORA. Do you know what its disposition is at the present time to give the committee that cooperation in the form in which it is now being sought?

Mr. REDMOND. Mr. Whitney, in his letter to you, in the next to the last paragraph, said [reading]:

In declining, therefore, to compel the members of the exchange to answer the questionnaire which you submitted to me, we are merely adhering to an established precedent and in no way seeking or wishing to delay the investigation now in progress.

Mr. PECORA. What does that mean with respect to their present attitude toward giving us the kind of cooperation that we are now seeking?

Mr. REDMOND. If you mean by "cooperation" the effective deprivation from members of the exchange of a fundamental right, I do not think the exchange will give that kind of cooperation.

Mr. PECORA. We do not mean any such thing, Mr. Redmond, and I am surprised to think that you feel that we have any such purpose in mind. What we want to get, specifically, is the cooperation of the governing authorities of the exchange to the end that this committee may obtain from the members of the exchange the kind of information set forth in the questionnaire.

Mr. REDMOND. My answer, Mr. Pecora, is that we are ready to give you every proper kind of cooperation we can, which has been our consistent attitude throughout this whole investigation.



Senator ADAMS. Mr. Redmond, you concede that the stock exchange has the power to compel its members to furnish the information contained in the questionnaire, if it saw fit to exercise the power.

Mr. REDMOND. Senator, that question verges on the question of the legal opinion as to the scope of the power.

Senator ADAMS. You have the right—

Mr. REDMOND. Let us assume it for the purpose of this discussion.

Senator ADAMS. Let us assume it. We have had before us from time to time, for instance, such men as Mr. Wiggin, who is sitting over here. We have asked him questions and he has said to us, "I don't know." We have said to him, "Will you get your secretary or the treasurer of your company to furnish that information?" Suppose he should say to us, "No; I won't do that. I won't ask them. You will have to bring them in." Would we have any authority to compel anybody to get information from anybody else who is subject to his orders? The stock exchange has the power to do it. Mr. Wiggin has the power to tell his secretary or his bookkeeper to give information, but suppose he should say to us, "I will not do it." Could we compel him, or could he stand on his rights?

Mr. REDMOND. I have found no authority, Senator, that would support the idea that a citizen has, at his peril, got to go out and secure information from another citizen.

Senator ADAMS. If that other citizen is subject to his control?

Mr. REDMOND. Even if he is subject to his control.

Mr. PECORA. What peril does the exchange face in sending out this questionnaire to its members?

Mr. REDMOND. I did not say it faced any peril.

Mr. PECORA. What peril do you think it might incur?

Mr. REDMOND. I said that was depriving the members of the exchange of a substantial right, and that we did not feel, in fairness, we could do it.

Mr. PECORA. Would the exchange sent out the questionnaire to its members at the request of this committee and reserve to each member of the exchange receiving the questionnaire the right to determine for himself whether any of the information called for by the questionnaire is information which the committee has no right to obtain from him?

Mr. REDMOND. That is, in substance, the chairman's suggestion of a few minutes ago.

Mr. PECORA. What is your answer to it?

Mr. REDMOND. My answer is, of course—I cannot speak for the exchange, I am nothing but its counsel, but I certainly think any such suggestion would be received receptively, and a very prompt answer given to it. I am sorry I cannot give a definite answer, but I did not come down here to testify, and I am certainly not in a position to bind the governing committee of the New York Stock Exchange.

Mr. PIERCE. Mr. Chairman, would a suggestion be in order?

The CHAIRMAN. I will be very glad to have it.

Mr. PIERCE. I am not speaking for the stock exchange as such, but simply for my own firm, and as reflecting, I believe, the ideas of a good many. That is that one of the legal representatives of Mr. Pecora's staff, and one of his accountants, could meet two or

three of those of us who have come down here and go over that questionnaire and ascertain to what extent it can be boiled down, and have it sent out by the committee, if you like. You do not care whether you get this information, I take it, through the stock exchange or direct from the members. There are only 1,375 members. Then send that questionnaire yourself to the different members and let them determine whether they want to answer it.

Mr. PECORA. If the stock exchange is unwilling to cooperate with us to the extent that has been indicated, by having it send out the questionnaire under circumstances that would leave each member free to determine whether or not he could or should furnish the information, I think we will have to resort to some such thing as you have suggested, Mr. Pierce; and the committee has already indicated, I think, its willingness to do that. We thought we would get the cooperation of the stock exchange. Apparently we cannot get it.

Mr. REDMOND. Mr. Pecora, that is not a fair statement.

Mr. PECORA. I think it is.

Mr. REDMOND. That question has not been submitted——

Mr. PECORA. We have spent a whole hour or more here in colloquy as to what the exchange can do, and as to what the exchange will do. The net result seems to be zero.

Mr. REDMOND. Mr. Pecora, I would like to have the record show that no suggestion similar to the one just made has even been submitted to the exchange.

Mr. PECORA. I have asked you about it, and you have dodged the question. You have stated you are not in a position now to tell us what you would advise the exchange to do, as to whether or not it had the power to do any such thing legally.

Mr. REDMOND. Mr. Pecora, I have dodged nothing, but you can not ask me, in fairness, to give a legal opinion in regard to the powers of the exchange under the Constitution on 5 minutes' notice. If you wish to submit the question which the chairman propounded originally, to the exchange, as I said a minute ago, I am sure it will be receptively received, and that you will have a very prompt answer. I do not want to seem to bind the exchange by saying yes or no, because I have not the authority to do so.

Mr. PECORA. Within what period of time do you think we would get an answer that you would call prompt?

Mr. REDMOND. By tomorrow—probably by 4 o'clock—to give the governing committee an opportunity to be called in session, and allow them to consider it. I think it would be very helpful if Mr. Pierce's suggestion were followed, that some of your experts consider, with some of the important gentlemen who have been summoned here today, whether further revision of some of these questions might not produce the information you desire, but in a form that would be much less burdensome on the members of the exchange.

The CHAIRMAN. I think Mr. Pierce's suggestion is quite a reasonable one, and perhaps we can get together to-day with these people whom you suggest, and arrive at a form of questionnaire that would bring the information we want. We do not want to put people to unnecessary trouble and expense. We want the facts, or approximately the facts, anyhow. We do not want any misinformation or

false information, but it seems to me we could probably reach the facts by modifying these questions in such a way as would enable the members to answer them, reserving any rights they may have about it. I think that suggestion is a very good one. I do not know what the members of the committee think about it.

Mr. PECORA. Mr. Chairman, we have always taken the position that we are willing to modify the questionnaire to any reasonable extent and to meet any situation that would seem to impose upon the members of the exchange any undue burden, either of time or of expense of money. Hours of conference, by Mr. Redmond's own statement here this morning, were spent by representatives of the committee with representatives of the exchange for the purpose of discussing such modifications or changes in the original form of the questionnaire. We would not have wasted time in those conferences if we had not been willing to recognize that perhaps some of the original questions were too broad, or called for information that made it almost a physical impossibility for the members to furnish this committee with the information. Then, after a lapse of 2 weeks, we are told that the exchange will not send out any questionnaire, because they have been advised by counsel that they have not the power to do it and to require the members to submit to it.

We could have been told that at the very outset. Then we might have taken the question up with members of the exchange individually.

Senator GOLDSBOROUGH. Mr. Chairman, I move that the committee go into executive session and see if we cannot reach some practical agreement on this subject.

Mr. PECORA. May I ask how many gentlemen who represent stock exchange houses are here this morning, in addition to Mr. Pierce, in response to the subpoenas of this committee. Would they kindly give their names and the firms they represent to the stenographer, one after the other?

Mr. GAYER G. DOMINICK. Gayer G. Dominick, of Dominick & Dominick. My partner, who is also comptroller of the business, is here with me, and I should like to have him come in the meeting.

Mr. JULES S. BACHE. Jules S. Bache, of J. S. Bache & Co.

Mr. JOHNSON. Herbert R. Johnson, of the firm of Orvis Bros. & Co.

Mr. DUNCAN. J. C. Duncan, of W. E. Hutton & Co.

Mr. LOEWENSTEIN. V. T. Loewenstein, of Bears, Stearns & Co.

Mr. CHAPMAN. M. A. Chapman, of Clisholm & Chapman.

Mr. ALBERT F. CLEAR. Albert F. Clear, of Hirsch, Lilienthal & Co.

Mr. ELLIS. George A. Ellis, Jr., of E. F. Hutton & Co.

Mr. PRENTISS. John W. Prentiss, Hornblower & Weeks.

Mr. DAVIS. Edward K. Davis, of Dominick & Dominick.

Mr. PECORA. And Mr. Pierce of E. A. Pierce & Co. Are there any other gentlemen present under subpoena, who represent the stock exchange houses?

(There was no further response.)

The CHAIRMAN. The committee will now take a recess until 2 o'clock. We will now have an executive session in the hearing room of the Senate Committee on Banking and Currency, room no. 303, and those gentlemen who have announced their presence and given



their names here will be welcome there. We will be glad to have them meet with us.

Mr. PECORA. I suggest also that the invitation similarly be extended to Mr. Redmond, if he cares to attend.

The CHAIRMAN. Yes; we are glad to invite Mr. Redmond to attend. The committee will now be adjourned and meet in room 303 in executive session.

(Thereupon, at 12:25 p.m. the committee adjourned to go into executive session, the regular hearing being adjourned until 2 p.m. of the same day, Friday, October 20, 1933.)

#### AFTER RECESS

The subcommittee resumed at 2 p.m. at the expiration of the recess.

The CHAIRMAN. The subcommittee will come to order. Mr. Pecora, you may proceed.

Mr. PECORA. Mr. Wiggin will resume the stand.

#### TESTIMONY OF ALBERT H. WIGGIN—Resumed

Mr. PECORA. Mr. Wiggin, your testimony yesterday afternoon closed with an inquiry into the trading-account operations managed by Dominick & Dominick, which terminated on or about April 8, 1929.

Mr. CONBOY. Mr. Pecora, I think your year is wrong, isn't it?

Mr. PECORA. 1930; yes. It terminated on March 7, 1930. Now, Mr. Wiggin, I want to ask you if you are familiar with the trading account participated in by the Metpotan Corporation, Potter & Co., McClure, Jones & Co., and Broomhall, Killough & Co., which was formed on or about April 10, 1929, and was terminated on or about July 3, 1930.

Mr. WIGGIN. I know that there was such an account, but I am not familiar with it.

Mr. PECORA. When you say you are not familiar with it do you mean that you have no knowledge whatever about it?

Mr. WIGGIN. Well, I would have to investigate to get figures or dates, but I do know that there was such an account, and that it was——

Mr. PECORA (interposing). Have you readily at hand any records which would enable you to inform this committee somewhat in detail with respect to this trading account?

Mr. WIGGIN. I think my associates will furnish it to me promptly.

Mr. PECORA. Who formed that trading account?

Mr. WIGGIN. When you say who formed it, what do you mean?

Mr. PECORA. Who took the initiative or who caused it to be formed?

Mr. WIGGIN. Let me find out.

The CHAIRMAN. Mr. Pecora, is this the fifth such account?

Mr. PECORA. Yes, sir.

Mr. WIGGIN. The Metpotan Co. took the leadership in the organization of the account.

Mr. PECORA. Was the formation of the account as well as the terms and provisions thereof evidenced in writing?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Can you produce as one of the writings relating thereto a letter dated April 10, 1929, addressed by Metpotan Securities Corporation to Broomhall, Killough & Co., Inc.?

Mr. CONBOY. We have it now.

Mr. PECORA. Mr. Wiggin, I show you what purports to be a photostatic reproduction of such a letter. Will you please look at it and tell us if you can identify it as a true and correct copy of such a letter.

Mr. WIGGIN. I do.

Mr. PECORA. Mr. Chairman, I offer it in evidence and ask that it may be spread on the proceedings of the subcommittee.

The CHAIRMAN. Let it be received and the committee reporter will make it a part of the record.

(A photostatic copy of letter dated Apr. 10, 1929, from Metpotan Securities Corporation to Broomhall, Killough & Co., Inc., was marked "Committee Exhibit No. 27, Oct. 20, 1933", and will be found on page 2533.)

Mr. PECORA. I will read the essential provisions of the exhibit, which will be spread in full on the record. It is dated April 10, 1929, and I read as follows:

We have this day formed an account for the purchase and sale of stock of the Chase National Bank and Chase Securities Corporation.

The account may trade in such stock and/or rights to subscribe for stock and/or new stock with the understanding that, as a result of such trading, the account shall not be long or short at any one time more than the equivalent of 6,000 shares of old stock.

Any stock in the account will be carried by Metpotan Securities Corporation any we will charge the account at the end of the month 5 percent interest per annum for carrying. The account will run for a period of 90 days from April 10, 1929, but may be further extended by mutual consent of all the members. The account has today purchased 5,394 shares at \$1,150 per share.

Members of the account and their respective interests are as follows: McClure, Jones & Co., one sixth; Potter & Co., one sixth; Broomhall, Killough & Co., Inc., one sixth; Metpotan Securities Corporation, one half.

Are the other three parties of this account whose names I have just read from committee exhibit no. 27, persons or associations that are members of the New York Stock Exchange?

Mr. WIGGIN. I think two of them are members of the stock exchange.

Mr. PECORA. Which are the two?

Mr. WIGGIN. McClure, Jones & Co., and Potter & Co. The other is just a corporation, as you probably know.

Mr. PECORA. What was the purpose of the formation of this trading account in behalf of Metpotan Securities Corporation?

Mr. WIGGIN. I think the same as before.

Mr. PECORA. To distribute stock?

Mr. WIGGIN. To distribute stock.

Mr. PECORA. By that do you mean to sell the stock to the public?

Mr. WIGGIN. To sell stock to investors; yes, sir.

Mr. PECORA. Now, at the time that this pool—no, I withdraw that. At the time that this trading account was formed isn't it a fact that there was in existence and in operation one of the other trading accounts with respect to which you have already been examined and which was managed by Dominick & Dominick?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Now, if that other account was formed for the same purpose on the part of the Metpotan Corporation, why was it necessary to form this trading account?

Mr. WIGGIN. It was to provide an increased distribution on the theory that these other houses would reach a different list of customers than those that were to be reached through Dominick & Dominick.

Mr. PECORA. Weren't the purchases and sales that were made by the trading account managed by Dominick & Dominick made through the open market?

Mr. WIGGIN. Of course, I do not know where they sold, as I stated yesterday or the day before. I take it they had a long list of their own customers, but, undoubtedly, a large part of it was done through the open market.

Mr. PECORA. Was the distribution of Chase Bank stock that this present account was formed to effect also made through the open market?

Mr. WIGGIN. I should think that probably it was made in the same way. Each one of these houses has a line of customers of its own.

Mr. PECORA. Do you mean that these houses—and by which term I believe you mean brokers?

Mr. WIGGIN. Yes, sir.

Mr. PECORA (continuing). Were boosting the stock among their own respective customers?

Mr. WIGGIN. I do not know that they were boosting it.

Mr. PECORA. Well, if the purpose of these trading accounts was to obtain distribution of the stock, that could have been done by any firm of brokers through the open market, couldn't it?

Mr. WIGGIN. Each to his own ability; yes, sir.

Mr. PECORA. Why was it necessary to have more than one trading account in operation at the same time for the same purpose?

Mr. WIGGIN. Because we wanted to get increased distribution.

Mr. PECORA. Well, was the obtaining of that increase of distribution due to the fact that the various brokers that entered into these trading accounts were boosting the stock among their own respective customers and in that way obtaining a wider distribution?

Mr. WIGGIN. I cannot say that they were boosting the stock, but I do think that they probably approached their own customers.

Mr. PECORA. Do you know whether or not Dominick & Dominick as managers of the other trading account were given information concerning the formation and existence of this trading account?

Mr. WIGGIN. I assume so. [After consulting an associate:] My associates tell me unquestionably they were posted.

Mr. PECORA. How many shares were traded in through the medium of this account that was formed on April 10, 1929?

Mr. WIGGIN. I will find out. [After consulting an associate:] Twelve thousand six hundred and thirty shares of the old stock; that is, the stock at \$100 par value, and 442,934 shares of the new stock of \$20 par value.

Mr. PECORA. What was the total cost of those purchases for the purpose of this account?

Mr. WIGGIN (after conferring with associates). \$103,216,184.88.



Mr. PECORA. The moneys necessary to acquire those shares were advanced by the Metpotan Securities Corporation from time to time as those moneys were required, were they not?

Mr. WIGGIN. That is right, sir.

Mr. PECORA. According to Exhibit No. 27, in evidence, it was the purpose of the participants in this account, when it was formed on April 10, 1929, to conduct it for a period of 90 days, with the proviso that it could be further extended by mutual consent of all the members. You will observe that this account was not terminated until July 3, 1930, or nearly a year and a quarter after the account was formed. Were there any special reasons for continuing the account for that period of time instead of concluding it within the original period of 90 days?

Mr. WIGGIN. It was continued for the same purposes for which it was started—the same reasons.

Mr. PECORA. Well, were all these four-hundred-odd thousand shares that were accumulated during the life of the account also sold by the time the account was closed on July 3, 1930?

Mr. WIGGIN. No, sir.

Mr. PECORA. How many shares were in the account at the time it was closed?

Mr. WIGGIN (after conferring with associates). Thirty-eight thousand four hundred and forty shares.

The CHAIRMAN. What became of those, Mr. Wiggin?

Mr. WIGGIN (after conferring with associates). The account was divided. McClure, Jones & Co. took over their share——

Mr. PECORA. Which was one sixth?

Mr. WIGGIN. Yes. Potter & Co. took over their share; Metpotan took over their share; Broomhall, Killough & Co., Inc., were in difficulties and Metpotan purchased their share at the market price.

Mr. PECORA. Did that purchase represent a loss?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Why did Metpotan Securities Corporation shoulder that loss and relieve Broomhall, Killough & Co., Inc., of it?

Mr. WIGGIN. You mean the shares they purchased from Broomhall, Killough & Co. showed a loss? Is that the question?

Mr. PECORA. Yes.

Mr. WIGGIN. Let me find out. [After conferring with associates.] Yes; it did result in a loss to the account.

Mr. PECORA. My question was, Why did the Metpotan Securities Corporation take over the one-sixth share of the stock that the account was long in at the close of the account if by so doing the Metpotan Securities Corporation took a loss? In other words, why were Broomhall, Killough & Co. relieved of the burden of that loss and that burden saddled on to the Metpotan Securities Corporation?

Mr. WIGGIN. Then I have not made it clear, because that is not the case. The stock was taken over at the market price and the loss on that share of the stock charged against the whole account.

Mr. PECORA. What was the total loss in this account at the time it was closed?

Mr. WIGGIN. I will have to get that. [After conferring with associates.] I am a little confused, Mr. Pecora. There was a loss on the transaction taken over from Broomhall, but the whole account was a profitable account.

Mr. PECORA. What was the profit in the whole account?

Mr. WIGGIN. \$321,250.14.

Mr. PECORA. What loss did the Metpotan Securities Corporation sustain as result of taking over, at the time of the closing of the account, the proportion of the shares then in the account which Broomhall, Killough & Co. were obligated to take over under their agreement?

Mr. WIGGIN. The stock was taken over at the market, 140 at that time—

Mr. PECORA. What loss was sustained?

Mr. WIGGIN. Wait a minute—and each participant took his pro rata of the stock. The account showed a profit.

Mr. PECORA. Are you sure the account showed a profit?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Of how much?

Mr. WIGGIN. \$321,250.14

Mr. PECORA. On the date of the termination of this account, namely, July 3, 1930, the account was long 38,440 shares, was it not?

Mr. CONBOY. That is the figure you got before; that is right.

Mr. PECORA. Thirty-eight thousand four hundred and forty and three quarters shares?

Mr. WIGGIN. Yes.

Mr. PECORA. And it was incumbent, under the terms of the trading account agreement, for the participants to take over pro rata those shares?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And under that agreement Broomhall, Killough & Co. would have been required to take over on the termination of the account one sixth of those 38,440 shares?

Mr. WIGGIN. Correct.

Mr. PECORA. At what price were they to be taken over—at the market on that day?

Mr. WIGGIN. At the average cost.

Mr. PECORA. At the average cost. Now, what was the average cost of those 38,440 long shares?

Mr. WIGGIN. 167 and a fraction.

Mr. PECORA. And at what price were they actually taken over by the syndicate participants on July 3?

Mr. WIGGIN. At that price.

Mr. PECORA. At what price?

Mr. WIGGIN. The same price.

Mr. PECORA. What was the market price of the shares on July 3? 140 I believe you said, or something like that.

Mr. WIGGIN. That is about right; yes, sir.

Mr. PECORA. Broomhall, Killough & Co., Inc., was not in a position to take over its one sixth of these thirty-eight thousand odd shares because they went into bankruptcy that day; is not that the fact?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And that one-sixth part of those shares therefore were taken over by the Metpotan Securities Corporation at the average cost of 167?

Mr. WIGGIN. No, sir.

Mr. PECORA. At what price were they taken over?

Mr. WIGGIN. At 140.

Mr. PECORA. At what price did the other participants take over their pro rata proportions?

Mr. WIGGIN. I am sorry, but these fellows can do this better than I can. (After conferring with associates.) Each participant took over his stock at 167.851.

Mr. PECORA. That 167.851 represented the average cost of those shares to the account?

Mr. WIGGIN. At 167.851; but there had been a profit already distributed in the account.

Mr. PECORA. I know that; but let us confine ourselves to what happened on July 3, 1930, when this account was closed with 38,440 shares to its credit which had been acquired at an average cost of \$167 plus. On the termination of the account each of the participants was required, under the terms of the agreement, to take over his or its pro rata share in the long stock at the average cost, was it not?

Mr. WIGGIN. Yes.

Mr. PECORA. Hence Broomhall, Killough & Co. were required, on the termination of this account, to take over 6,406 shares, being one sixth or 38,440 shares, that were in the account at the close. Is that right?

Mr. WIGGIN. That is right.

Mr. PECORA. And the price Broomhall, Killough & Co. were obligated to pay for those shares was at the rate of 167.851?

Mr. WIGGIN (after consultation). They tell me that is right, sir.

Mr. PECORA. Now, the market on that day was not 167.851, but about \$140 per share?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. So that each participant on the day of closing, who took over his or its share of the long stock, would have done so at a loss?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Broomhall, Killough & Co., because they had gone into bankruptcy that day, were unable to take over their proportion of that long stock?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. And the Metpotan Securities Corporation took that long stock over itself; that is, took over the share that Broomhall, Killough & Co. was required to take over?

Mr. WIGGIN (after conferring with associates). The Metpotan took over that portion of the stock in the account at 140, the market price at that date.

Mr. PECORA. That loss which was represented by the difference between \$140 and \$167 per share for these 6,407 shares was charged off against the account in its entirety?

Mr. WIGGIN. Yes.

Mr. PECORA. Now, if, as you have said, the purpose that the Metpotan Securities Corporation had in forming this account on April 10, 1929, was to sell its shares and to obtain a wider distribution of it, why was it necessary for the account to be formed for the purchase as well as the sale of the capital stock of The Chase National Bank and the Chase Securities Corporation?



Mr. WIGGIN. We must have some purchasing power in a long-selling campaign.

Mr. PECORA. Why?

Mr. WIGGIN. To assist in the selling campaign.

Mr. PECORA. Do you mean to help make the market?

Mr. WIGGIN. To keep the market steady. To take back stock that comes in the market.

Mr. PECORA. You mean to give the market an appearance of activity that would make it easier to dispose of the shares that you wanted to sell?

Mr. WIGGIN. No, sir.

Mr. PECORA. Well, what is the reason it is necessary in a selling campaign to also purchase shares?

Mr. WIGGIN. To keep a steady price.

Mr. PECORA. "To keep a steady price." There was no way for the public to know, was there, during the operation of these accounts that purchases and sales were currently being made by the same people in order to enable those people to sell their own shares?

Mr. WIGGIN. No; I don't know whether the public knew it or not. The public undoubtedly know that that is a common way of doing business.

Mr. PECORA. Do you think the investing public undoubtedly knows that interests that desire to sell their shares of a certain security organize trading accounts such as this for the purpose of enabling them to sell their shares?

Mr. WIGGIN. Oh, I think so.

Mr. PECORA. You do?

Senator ADAMS. Don't you really think it is for the purpose of deceiving the public rather than otherwise?

Mr. WIGGIN. It is not either one or the other. It is just a necessity in order to sell the stock.

Mr. PECORA. And you think the investing public generally knows that that is a common practice?

Mr. WIGGIN. Oh, I think so.

Mr. PECORA. Do you consider that it is a common practice?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. A very common one?

Mr. WIGGIN. Very common.

Senator ADAMS. It does lead to a false impression on the part of the public, does it not?

Mr. WIGGIN. No; I don't think so, Senator. It is like merchandise of any kind.

Senator ADAMS. But you are creating the appearance of an active market of ready purchasers, when as a matter of fact that is not the situation?

Mr. WIGGIN. Well, I don't think it creates an active market. There is no listing of the number of shares sold anywhere. Nobody knows how many shares are sold.

Senator ADAMS. Then why should it have the effect of maintaining a steady market, if nobody knows about it?

Mr. WIGGIN. Because you buy it and keep the price there.

Senator ADAMS. Well, who knows about it?

Mr. WIGGIN. The quotations.

Mr. PECORA. Who knows that the quotations are influenced by buying and selling operations conducted at the same time by the same interests?

Mr. WIGGIN. The Street knows it very thoroughly.

Mr. PECORA. By the "Street" you mean the professional traders; you don't mean the general investing public, do you?

Mr. WIGGIN. Oh, I think so; yes, sir.

Mr. PECORA. Do these trading accounts announce to the public that they are operating, or do they take pains to prevent that fact from becoming known? What is your opinion about it?

Mr. WIGGIN. I don't think that—certainly they do not go out and advertise it. There is no concealment of it.

Mr. PECORA. There is no concealment of it, but there is no announcement of it to the public at any time, is there?

Mr. WIGGIN. No; no formal announcement.

Mr. PECORA. How do you think the public knows of the operations of these trading accounts currently then, if no announcement of their operation is made to the public?

Mr. WIGGIN. Some know and some don't know. You cannot sell a large quantity of securities without having some purchasing power on the market at the same time.

Mr. PECORA. And that purchasing power is supplied or obtained in part by the organization, formation, and operation of trading accounts of the kind that you have been examined about here?

Mr. WIGGIN. Frequently.

Mr. PECORA. Do you think that the operations of these trading accounts, which are not announced to the public as being in operation, contribute to the maintenance of a normal, natural law of supply and demand in fixing prices, or do you think that they, on the other hand, interfere in the operation of that law of supply and demand as a factor in fixing of prices?

Mr. WIGGIN. It might influence the supply and demand from day to day, but in the long run it does not affect it.

Mr. PECORA. What is the practical difference, in your opinion, Mr. Wiggin, between operations consisting of buying and selling at the same time by trading accounts and the making of wash sales? What is the practical difference between the two?

Mr. WIGGIN. One is a real purchase and a real sale and the other is not.

Mr. PECORA. "One is a real purchase and a real sale and the other is not." What is the purpose and effect of a wash sale, Mr. Wiggin, as a rule?

Mr. WIGGIN. I don't know. I am not a broker, and I only know this term "wash sale" by newspaper talk. Now, I don't know what the purpose is.

Mr. PECORA. Do you believe that wash sales have been made?

Mr. WIGGIN. I think they have been. I don't know that they are now. There is a world of reform going on now.

The CHAIRMAN. Both of these operations really fix an artificial price, do they not? It is an artificial price that is fixed by these buying and selling operations, and the same in wash sales?

Mr. WIGGIN. I don't think so.

Senator ADAMS. The wash sale had rather a different purpose, did it not? They rather looked to that to aid the Government in its income tax operations?

Mr. PECORA. "Aiding the Government", did you say, Senator?

Mr. WIGGIN. Is there any question unanswered? I don't think so.

Mr. PECORA. Yes; I asked you to describe the purpose and effect of wash sales.

Mr. WIGGIN. I am not an expert. I don't know how to describe the purpose and effect. We are led to believe that it is to deceive people.

Senator ADAMS. It is a curious thing, Mr. Pecora, how those away out in the wilderness become familiar with these Wall Street terms and think they know what they mean, and the fellows who come down here from Wall Street do not know about them.

Mr. WIGGIN. A wash sale, as I understand it, in effect is a fictitious sale, not a sale at all.

Mr. PECORA. A wash sale is where there is no real parting of title, is it not? That is another attribute of a wash sale?

Mr. WIGGIN. I would describe it as a fictitious sale—no sale at all.

Mr. PECORA. In the case of a trading account buying and selling the same kind of security at the same time, don't you recognize elements which make it similar in its influence on market prices to the wash sale?

Mr. WIGGIN. Not at all, Mr. Pecora. Oh, no. One is real and genuine and the other is a fictitious sale.

Mr. PECORA. The buying and selling conducted by a trading account which has for its object, as you have said, these trading accounts had for their object the selling of their shares, tended to create an appearance in the market of a very active demand for the stock, whereas that demand, or part of it, came from the buying operations of the trading account that really bought in order to effect a sale of their own shares? Isn't that so?

Mr. WIGGIN. As I said, nobody knows how many shares were traded in a day. There is no report like the stock exchange listing, you know. I don't know whether it misled anybody in any way.

Senator COUZENS. Let us assume, Mr. Wiggin, that you lived out in Flint, Mich., and that you were a shrewd investor, as we assume you are. How would you go about to know whether you were buying Chase National Bank and Chase Securities Corporation stock at a right price?

Mr. WIGGIN. Well, I think events have shown that we do not have any way of knowing.

Senator COUZENS. Well now, supposing that you, as I say, were living out in Flint, Mich., and you wanted to buy some Chase stock. How would you be guided in determining whether you should or should not purchase it and at what price you think you ought to pay for it?

Mr. WIGGIN. Simply a study of the company and its record.

Senator COUZENS. You would not be influenced by the market price in New York?

Mr. WIGGIN. Certainly.

Senator COUZENS. You would?

Mr. WIGGIN. I would want to know what the price was.



Senator COUZENS. And they you would analyze the statement to see what the book value was and its earning capacity?

Mr. WIGGIN. I suppose so.

Senator COUZENS. Then the price on the New York Stock Exchange or the Curb or over the counter would not make much difference, would it, if you used those other factors in determining whether you should or should not buy?

Mr. WIGGIN. I think everybody who studied it and made up his mind to buy it would want to know the price before he did buy.

Senator COUZENS. But you would make your study first?

Mr. WIGGIN. Yes, sir.

Senator COUZENS. Have you any indication, Mr. Wiggin, as to how many people adopt that method in deciding whether they should or should not buy a stock?

Mr. WIGGIN. Oh, I don't know how to answer that question, Senator. We all know that many people buy stocks because somebody else tells them to.

Senator COUZENS. Are they not influenced by the New York over-the-counter or market price?

Mr. WIGGIN. Undoubtedly; and yet, as you know, the losses have been just about as severe, perhaps more severe, in the securities that people studied carefully and devoted a great deal of attention to, as they have in those that they took on the hit-and-miss principle.

Senator COUZENS. So you do not think there is much use in studying them because the hit-and-miss principles work just as well?

Mr. WIGGIN. So I think that when you get a depression of this kind where everything goes, why, some are worse than others, but my experience has been that people that study it do not come out much better than the fellows that take it on somebody else's tip.

Mr. PECORA, you must remember this, speaking of buying and selling securities, that the greatest operator in the world in buying of securities and selling securities, keeping the market steady, is the United States Treasury Department.

Senator COUZENS. Are you not confusing the operations of the Federal Reserve System with the Treasury Department?

Mr. WIGGIN. Perhaps so, yes. I think that is right.

Mr. PECORA. Mr. Wiggin, you said in answer to one of the questions put to you by Senator Couzens in the last few minutes that one living, as he put it, in Flint, Mich., who wanted to buy shares of the Chase National Bank stock would be guided, or should be guided in your opinion, not only by the market quotations but by a study of the record of the bank income to ascertain its book value—is that what you had in mind?

Mr. WIGGIN. Well, I said I assumed that if a person were to buy a stock and wanted to study it the first thing he would do would be to study the statement of the institution and its earnings.

Mr. PECORA. That would be the most sensible way of doing it?

Mr. WIGGIN. I think it would be a natural way. I do not think that they would come out any better, but it would be a natural way.

Mr. PECORA. Is that the way that you have pursued in your own operations and transactions?

Mr. WIGGIN. No; I don't know how I pursued it, Mr. Pecora.

Mr. PECORA. Will you look at what purports to be a photostatic copy of a telegram addressed to you under date of February 1, 1929, which I now show you, and tell us if you recognize it to be a true and correct copy of a telegram received by you about that time?

Mr. WIGGIN (after examining document). I had forgotten all about it, but I have no doubt it is correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered in the record.

(Telegram dated Feb. 1, 1929, to Mr. Wiggin from "Tom" was thereupon designated "Committee Exhibit 28, Oct. 20, 1933.")

Senator COUZENS. Will you read it, Mr. Wiggin?

Mr. PECORA. Let me read it.

Mr. WIGGIN. Yes; let Mr. Pecora read it.

Mr. PECORA. The exhibit reads as follows, on the form of the Western Union:

NEW YORK, N.Y., February 1, 1929.

Albert H. Wiggin, Golden State Limited, Car No. 27, Room A, arriving Douglas, Arizona. 101 p.m. today, Douglas, Ariz.

The Van Ess boys of Cleveland have just organized Alleghany Corporation, being a holding company, to take over their principal investment in railroad shares. Yesterday we issued 35 million of collateral trust bonds. Today Guaranty is offering 25 million preferred stock. We are making no offering of common stock, but have set aside for you and immediate associates 10,000 shares at cost to us, namely, \$20. The counter market is quoted at \$35. Please wire promptly your wishes. I am sailing for Paris tonight. With best regards,

Tom.

Who is the "Tom" referred to at the end of that telegram?

Mr. WIGGIN. I think I know. Just a second. I will make sure. There are two Toms. I do not want to charge it to the wrong fellow. [After consulting with associates.] I think it was Mr. Lamont.

Mr. PECORA. Mr. Thomas W. Lamont of J. P. Morgan & Co.?

Mr. WIGGIN. I think so.

Mr. PECORA. You had not looked up any book value of Alleghany Corporation at that time, had you?

Mr. WIGGIN. No, sir.

Mr. PECORA. And you took this participation without any question, did you not?

Mr. WIGGIN. Entirely.

Senator COUZENS. In other words, that was \$15 below the market, is that right, at the time?

Mr. WIGGIN. Well, I don't know.

Mr. PECORA. According to the information embodied in the telegram, Mr. Lamont was letting you in on 10,000 shares at 20 when the market was 35. Isn't that the fair implication of that telegram?

Mr. WIGGIN. I don't know about the prices, but I assumed it was a favor and I was very glad to take it.

Senator COUZENS. Did you make any money out of it?

Mr. WIGGIN. No; I lost money.

Mr. PECORA. That is because you did not take advantage of the market at that time?

Mr. WIGGIN. Exactly.

Mr. PECORA. Yesterday in the course of your testimony, Mr. Wiggin, you were asked to define a pool account as applied to a stock-

market transaction. I show you what purports to be a photostatic copy of a letter addressed to the Shermar Corporation by W. E. Hutton & Co., dated October 31, 1928. Will you please look at it and tell us if you recognize it to be a true and correct copy of such a letter sent to the Shermar Corporation on or about the date which that bears?

Mr. WIGGIN. I do not remember it at all, but I have no doubt that it is perfectly correct.

Mr. PECORA. I offer it in evidence and ask that it be spread upon the record.

The CHAIRMAN. It will be received and placed in the record.

(Letter dated Oct. 31, 1928, from W. E. Hutton & Co. to the Shermar Corporation was received in evidence and marked "Committee Exhibit No. 29 of Oct. 20, 1933.")

Mr. PECORA. This letter is on the letterhead of—

W. E. HUTTON & Co.,  
New York, October 31, 1928.

The SHERMAR CORPORATION,  
New York, N.Y.

GENTLEMEN: Enclosed please find check for \$105,467.49, being the amount of your subscription and profit on the Hudson Motor Car Co. pool account.

Kindly acknowledge receipt of this and oblige.

Yours very truly,

W. E. HUTTON & Co.

Mr. PECORA. Did you have any doubt in your mind when this letter was written and received on or about October 31, 1928, as to what a pool account was?

Mr. WIGGIN. I suppose I had as much doubt as I have today.

Mr. PECORA. What did you think that a pool account meant in October 1928?

Mr. WIGGIN. I do not know how to describe it today. I am more at a loss now than I was the other day.

Senator COTZENS. You did not refuse the check because of the odium on a pool?

Mr. WIGGIN. No, sir.

Mr. PECORA. Who were the managers of the last trading account that I examined you about this afternoon—the account with Potter & Co., Broomhall, Killough & Co., Inc., and McClure, Jones & Co.?

Mr. WIGGIN. Metpotan Corporation.

Mr. PECORA. The Metpotan Corporation managed the operations of that trading account?

Mr. WIGGIN. Yes.

Mr. PECORA. I thought you said yesterday that the Chase Securities Corporation did not know how to sell its securities. Apparently the Metpotan Securities Corporation, which was wholly owned by the Chase Securities Corporation, knew how to sell securities through the medium of the trading account.

Mr. WIGGIN. I do not think they knew how very well. That is the reason these other houses were in it.

Mr. PECORA. The Metpotan Corporation managed the trading account?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. They must have been familiar with the machinery for the operation of the trading account if they assumed the manage-



ment of it with the consent of the two stock exchange houses? Is that not a fair inference?

Mr. WIGGIN. I do not think they knew how to sell stock.

Mr. PECORA. Why did they undertake the management of this, then, if they did not know to do it?

Mr. WIGGIN. They had the biggest interest in the account.

Mr. PECORA. What is that?

Mr. WIGGIN. They had the biggest interest in the account, and they depended on the brokers to sell the stock.

Mr. PECORA. Do you think that the participants in that trading account, which consisted of stock exchange houses, felt that the Metpotan Securities Corporation did not know how to manage the account?

Mr. WIGGIN. I did not say that.

Mr. PECORA. What?

Mr. WIGGIN. I did not say they did not know how to manage the account.

Mr. PECORA. Well, the purpose of the account was to sell securities, sell the Chase Bank stock, was it not?

Mr. WIGGIN. Yes; that was the purpose.

Mr. PECORA. And the Metpotan Corporation undertook to manage such a selling campaign through the medium of that trading account?

Mr. WIGGIN. They managed the account.

Mr. PECORA. Upon the closing of this trading account on July 3, 1930, was a new trading account formed within a few days thereafter with the same participants, except for Broomhall, Killough & Co.?

Mr. WIGGIN. Yes, sir.

Mr. PECORA. Who managed that account?

Mr. WIGGIN. Metpotan.

Mr. PECORA. How long did it operate?

Mr. WIGGIN. Until August 5, 1931.

Mr. PECORA. How many shares were purchased for this account during its life?

Mr. WIGGIN. Twenty-five thousand four hundred and fifty-four.

Mr. PECORA. At what cost?

Mr. WIGGIN. \$3,471,340.07.

Mr. PECORA. How many of these shares were sold by the account during its life?

Mr. WIGGIN. All but 539 shares.

Mr. PECORA. Were those 24,915 shares that accordingly were sold by the account sold at a profit or a loss to the account?

Mr. CONBOY. What figure did you use, Mr. Pecora?

Mr. PECORA. I used the figure of 24,915, which represents the difference between 25,454 shares and 539 shares which Mr. Wiggin said were left in the account at the termination of it.

Mr. CONBOY. I misheard you. I thought you said 44,000.

Mr. PECORA. No; 24,000.

Mr. WIGGIN. The 539 shares which were taken down pro rata by the interests in the account was the profit. There was no cash profit and no cash loss.

Mr. PECORA. What was the market value of these 539 shares?

Mr. WIGGIN. Wait a minute. They tell me I am wrong, Mr. Pecora. Let me correct that. The 539 shares were distributed against the total payment of \$68,489.64, that payment being made pro rata by the syndicate interests.

Mr. PECORA. Did a profit accrue to this account from its operation?

Mr. WIGGIN. We will have to get the market to see what they took it at and what the market was. [After conferring with his associates]. At the time they took down the stock the market value was less than the price at which they took it down.

Mr. PECORA. No, but during the operation of this entire account from July 10, 1930, to its termination on August 5, 1931, was there a profit or was there a loss to the account from the operations?

Mr. WIGGIN. If they had sold the stock of course there was a loss, because the market price was less than the distribution price. They took it down at the equivalent of 126 and a fraction, and the market was a great deal less than that.

Mr. PECORA. That is, on the date of the closing of the account?

Mr. WIGGIN. Yes.

Mr. PECORA. This account operated for a period of over 1 year, and during that year it purchased 25,454 shares at a cost of \$3,471,340, and sold 24,915 shares. Did those transactions result in a profit or in a loss to the trading account?

Mr. WIGGIN. There had been no distribution of profit. Consequently, when the account was closed and the stock delivered at a cost of 126 and a fraction and the market was less, there was a loss in the account at that time.

Mr. PECORA. Let me get at it in another way. What was the aggregate amount of the proceeds that the account obtained for the sale of the 24,915 shares that it made during the life of the account?

Mr. WIGGIN. The proceeds were exactly the same as the cost price. The margin and the difference being those 539 shares.

Mr. PECORA. Have you got the proceeds in dollars and cents?

Mr. WIGGIN. Yes, sir. \$3,471,340.07.

Mr. PECORA. That was the cost of all the 25,454 shares?

Mr. WIGGIN. That was the sole proceeds; yes.

Mr. PECORA. And they sold 24,915 shares for a sum exactly corresponding to the cost price to the syndicate of the 25,454 shares?

Mr. WIGGIN. Yes, sir. That is not a coincidence. It simply meant that they gave the profit in stock, you see, so that the cash offset. 539 shares was the adjustment that made it come out.

Mr. PECORA. What is that?

Mr. WIGGIN. The 539 shares was the adjustment to close the account. The CHAIRMAN. Do you know what they finally brought?

Mr. WIGGIN. Of course, we do not know what the others did, and I suppose ours went into a general account. We cannot identify the particular stock. The Metpotan's went into a general account as the other stock had, and we do not know what the other houses did.

Mr. PECORA. How many shares of Chase Bank and Chase Securities Corporation stock did the Metpotan Co. have on July 10, 1930, which it desired to sell to the public through the medium of this trading account?

Mr. WIGGIN. Read the question please.

(The reporter read the pending question.)

Mr. WIGGIN. It had on hand at that time, in all accounts, about 100,000 shares, but I cannot tell whether, with respect to any of it or part of it, it was the desire to sell it to the public, because they were accumulating the stock for another purpose.

Mr. PECORA. I understood you to say that the purpose of the formation of this trading account was to enable the Metpotan Co. to sell to the public shares of stock which it had. Now, how many of the shares, which it had on July 10, 1930, when this trading account was formed to effectuate that purpose, did it actually sell through the medium of this trading account?

Mr. WIGGIN. I do not think any of them were sold.

Mr. PECORA. So, this trading account did not accomplish any of the purposes for which it was formed by the Metpotan Co.?

Mr. WIGGIN. Apparently not.

Mr. PECORA. And it continued in existence for something like 13 months.

Mr. WIGGIN. Of course, the account was formed—it had other purposes besides distribution. It was to stabilize. When a stockholder wanted to sell, it enabled him to get a fair price for it. It was a purchasing account as well as a selling account, as you know. So that when I say it did not accomplish any of those purposes, I do not know that that is strictly so.

Mr. PECORA. Which of its purposes with which it formed this trading account were accomplished or attained by the operations of the trading account?

Mr. WIGGIN (after conferring with associates). I think it accomplished the purpose of stabilizing the market, and of having the stock on hand when it could be used to advantage.

Mr. PECORA. When you say that it accomplished the purpose of stabilizing the market, is not that another way of saying that it had the purpose of creating an outward or public appearance of a steady demand for the stock in the market?

Mr. WIGGIN. Oh, I do not think so.

Mr. PECORA. Do you not think that that was one of the results that emanated from the operations of this trading account?

Mr. WIGGIN. Oh, I do not think so. If you were listing it on the stock exchange, with so many shares traded in a day, that might be an influence, but nobody knew how many shares of Chase Bank stock were traded in.

Mr. PECORA. Why should these other houses have been concerned with stabilizing the market?

Mr. WIGGIN. They were in it to make money.

Mr. PECORA. Did the market need stabilizing at that time?

Mr. WIGGIN. I think most of the time bank stocks need stabilizing.

Mr. PECORA. As a matter of fact, that is sort of a constant condition of the market, is it not?

Mr. WIGGIN. I think so.

Mr. PECORA. It needs stabilization, and the stabilization is furnished through the formation and operation of trading accounts?

Mr. WIGGIN. Sometimes.

Mr. PECORA. So it would seem, would it not?

Mr. WIGGIN. I do not want to speak for anybody else.

Mr. PECORA. I mean, it would seem to you?

Mr. WIGGIN. No; but we have cited several trading accounts.



Mr. PECORA. From your general experience and knowledge of market conditions, would you say that that is a constant condition of the market?

Mr. WIGGIN. Not constant; no, sir.

Mr. PECORA. Frequent?

Mr. WIGGIN. More frequent on inactive stocks than on active stocks.

Mr. PECORA. And are not public quotations thereby created which are artificially stimulated through the activities of these trading accounts?

Mr. WIGGIN. I beg your pardon?

(The reporter read the pending question.)

Mr. WIGGIN. There may be cases.

Mr. PECORA. Do you think they are a good thing for the investing public?

Mr. WIGGIN. It may be a benefit to them sometimes. I do not know.

Mr. PECORA. Frequently it is a distinct disadvantage to them, is it not? In the light of what you know has happened in recent years, can you not answer that question "yes" or "no"?

Mr. WIGGIN. I should think that anybody who bought anything 3 years ago would have been very much better off if he had not; and I should think, 3 years before that, if he bought anything he would have been a great deal better off for buying it. It was the times.

Mr. PECORA. Would you advocate the enactment of laws that would place some kind of limitation or require some kind of publicity to be given to the activities of trading accounts such as these? [Addressing one of Mr. Wiggin's associates.] Won't you let Mr. Wiggin answer that question without any suggestion from you, sir. This calls for his own opinion.

Mr. WIGGIN. Let me think that over.

Mr. PECORA. Think it over.

Mr. WIGGIN. That is a big order.

Mr. PECORA. This gentleman does not have to presume to help you out.

Mr. CONBOY. He was making the very same comment that you are making, without suggesting anything to the witness at all.

Mr. PECORA. I do not know what he was saying, because it was said in a whisper.

Mr. CONBOY. I am telling you.

Mr. PECORA. But, in view of the fact that the question was something that called for the opinion of the witness himself, his answer should represent his opinion, uninfluenced by anything he hears from anybody else.

Mr. CONBOY. And it is going to be.

Mr. WIGGIN. Read the question, will you please?

(The reporter read the pending question.)

Mr. WIGGIN. I can see no harm. Whether they would accomplish the purpose or not I do not know. I can see no harm in the attempt.

Mr. PECORA. What purpose did you think I had in mind that such legislation should accomplish, or could accomplish?

Mr. WIGGIN. I had in mind that you wanted the public to have more information than they have; is that correct?

Mr. PECORA. That was one of them—so that the public would be in a better position to determine whether market quotations were the result of a free and open market operating in accordance with the law of supply and demand.

Mr. WIGGIN. That is as I understood the question.

The CHAIRMAN. The committee will stand adjourned until Monday morning at 10 o'clock.

Mr. PECORA. All witnesses under subpoena return at that time.

(Whereupon, at 3:45 p.m., Friday, Oct. 20, 1933, the subcommittee adjourned to meet Monday, Oct. 23, 1933, at 10 a.m.)

UNITED STATES SENATE,  
COMMITTEE ON BANKING AND CURRENCY,  
*New York City, September 30, 1933.*

Mr. RICHARD WHITNEY,  
*President New York Stock Exchange, New York City.*

DEAR MR. WHITNEY: AS counsel for the Senate Committee on Banking and Currency in its pending investigation of the practices and conduct of stock exchanges and their members with respect to the buying, selling, borrowing, and lending of securities, I send you herewith enclosed a questionnaire, which I take the liberty of requesting you to address to all members of the New York Stock Exchange. You will observe that some of the information sought to be elicited through the medium of such questionnaire is of a character which can be furnished by the exchange itself; the balance of the information desired will, of course, have to be obtained from its members.

#### QUESTIONNAIRE

(A) Give the following data for October 1, 1929, and July 1, 1933:

1. Number of members of New York Stock Exchange.
2. (a) Number of members acting exclusively as traders for their own account, giving names and addresses.
- (b) Number of members acting exclusively as floor brokers, giving names and addresses.
- (c) Number of members acting in the capacity of both individual traders and floor brokers, giving names and addresses.
- (d) Number of members who are investment bankers who do not maintain regular representation on the floor of the exchange, giving names and addresses.
- (e) Number of members who engage exclusively in commission brokerage business, giving names and addresses.
- (f) Number of member houses who in addition to acting as brokers have also participated in security offerings, and in pools, syndicates, or joint accounts, giving names and addresses.
- (g) Names of all member houses engaged exclusively in handling odd-lot transactions.

(B) Obtain from each member and member firm the following data for the year 1929 and for the year 1933 up to September 1:

I am resorting to this means of obtaining the information because I think it affords the speediest and most convenient method therefor. It certainly seems to me to be preferable to subpoenaing the individual members to attend as witnesses before the committee in Washington, D.C., with their books and records.

I earnestly trust that we will have the hearty cooperation of your institution in the pursuit of this process. I further hope it will be possible for the exchange to obtain this information and to submit it to me in time to enable me to present a compilation and analysis thereof to the Senate Committee by November 6th next.

Very sincerely yours,

FERDINAND PECORA,  
*Counsel, United States Senate Subcommittee on Banking and Currency.*

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(g) Names of all member houses engaged exclusively in handling odd-lot transactions.

(B) Obtain from each member and member firm the following data for the year 1929 and for the year 1933 up to September 1:

(a) Number of customers (persons, partnerships, and/or corporations) who bought or sold any securities, excluding bonds, debentures, and notes, separately tabulating the number of customers buying or selling securities on margin or credit accounts, and the number buying or selling securities for cash.

(b) The number of customers (persons, partnerships, and/or corporations) who purchased or sold bonds, debentures, and notes, separately tabulating the number of customers buying or selling on margin or credit accounts, and the number buying or selling for cash.

In tabulating the information under (a) and (b) give number of customers residing in the city of New York and those residing outside of the city of New York.

(C) Obtain from all odd-lot houses the number of shares bought and the number of shares sold by them during the period April 1 to July 31, 1933, inclusive.

(D) Obtain from all individual floor traders a statement of the total number of shares bought and the total number of shares sold by them on the exchange during the period April 1 to July 31, 1933, inclusive.

(E) Obtain from each member or member firm the following data:

1. The total number of margin accounts on their books as of July 31, 1929; July 31, 1930; July 31, 1931; July 30, 1932; and July 15, 1933.

2. The total debit balances in such marginal accounts as of July 31, 1929; July 31, 1930; July 31, 1931; July 30, 1932; and July 15, 1933.

(F) Obtain from each member and member firm a statement showing whether member firm or any agent acting for such firm, or any partner thereof, participated in the profit and/or losses resulting from the exercise of any options to purchase securities during the years 1929 to 1933 inclusive. In reply to this question furnish the name of each member and his answer for each year for this period.

(G) Obtain from each member or member firm the following data for the years 1929 to 1933, inclusive, furnishing the name of each member and his answer for each year during this period.

1. A statement showing whether member firm or any agent acting for such firm or any partner thereof participated in the profits and/or losses, or in any distribution of securities in any syndicate, pool, and/or joint account, giving the nature of the account—whether syndicate, pool, or joint account.

2. A statement showing whether any joint, syndicate, or pool accounts were maintained on the books of such member or member firm in which such member or member firm had no proprietary interest, giving nature of the account—whether syndicate, pool, or joint account.

(H) Obtain from each member or member firm the following data for the years 1929 to 1933, inclusive, furnishing the name of each member and his answer for each year during this period:

1. A statement showing whether member or member firm has purchased any securities for resale.

2. Whether member or member firm has underwritten or participated in the underwriting and/or distribution of any securities.

3. Whether member or member firm is a member of/or associated with any investment trust.

(I) 1. Obtain from each member or member firm who engaged in brokerage business and securities selling and/or syndicate, pool, or joint account operations, a statement showing whether a segregation or allocation of capital and



of accounts for each department was maintained during the years 1929 to 1933, inclusive. In replying to this question furnish name of each member and his answer for each year for this period.

2. Where answer from member or member firm to the previous question is in the affirmative, give date, in each case, when such segregation took effect. Submit details of plan, stating if, in emergencies, capital funds may be switched back and forth between the departments.

(J) Obtain from each member or member firm the following data for each year of the years 1928 to September 1, 1933, inclusive:

1. Annual gross charges to customers for commissions for the purchase and sale of securities, excluding bonds, debentures, and notes.

2. Annual gross charges to customers for commission for purchase and sale of bonds, debentures, and notes.

3. The annual gross charges to customers for interest.

4. A detailed annual income statement showing receipts and disbursements by classification.

(K) 1. Give the names of all members who acted as specialists on October 1, 1929, and July 1, 1933. Give the names of the securities assigned to each.

2. Furnish copies of all provisions in the constitution and bylaws of the New York Stock Exchange relating to specialists in effect on December 31, 1929, and copies of all amendments subsequent thereto up to August 31, 1933.

3. Give names of all specialists who have been subjected to warning, trial, or disciplinary action of any nature or character whatsoever by any committee or governing body of the exchange for the period from January 1, 1928, to September 1, 1933. In each case state the date, the nature of the alleged violation and the disposition thereof.

(L) Give the following data for each of the years from 1929 to 1933, inclusive:

1. Number of persons employed by the New York Stock Exchange in publicity and/or public relations activities.

2. Number of persons employed by the New York Stock Exchange in any capacity under the direct on or jurisdiction of the library committee.

3. Number of persons employed by the department of economist of the New York Stock Exchange.

4. Total yearly appropriation by the New York Stock Exchange for all of the above enumerated purposes.

5. Total number of pamphlets, brochures, printed addresses, articles, or writings of a similar nature circulated or distributed by the Exchange or any of its subsidiaries.

6. The titles and dates of all such publications.

7. The number of copies of the two books—"The Work of the Stock Exchange" and "Short Selling", written by the economist of the New York Stock Exchange, which were purchased by the exchange or any of its subsidiaries, officers, or governors, and itemize and specify to which institutions such volumes were sold or distributed gratis, and the number so distributed or sold.

8. Names of any and all persons employed by the New York Stock Exchange in publicity or public relations work of any character.

9. Furnish copies of all the articles, speeches, pamphlets, brochures, or writings of Richard Whitney, president of the New York Stock Exchange, published since 1928.

(M) Give the following data for each of the years from 1928 to September 1, 1933:

1. Names of bond issues listed on the New York Stock Exchange which have been in default during such period.

2. List of members or member houses of the New York Stock Exchange who became insolvent.

3. List of members suspended by the New York Stock Exchange, giving dates of such suspension, reasons therefor, and where such members were in partnership, the names of such firms.

4. List of members or member firms who have either sold or transferred their seats upon the New York Stock Exchange, giving dates of such sale or transfer.

Where member or member firm has been suspended, or has ceased doing business, information requested should be obtained from successor firms. If not so obtainable, list the names of such members or member firms from which the data has not been obtained, and the approximate date when such members or member firms discontinued their association with the exchange.

(N) Give the following information for each of the years from 1928 to 1933, inclusive:

1. All committees of the New York Stock Exchange and the names of the members of each committee.

NEW YORK STOCK EXCHANGE,  
New York, October 5, 1933.

FERDINAND PECORA, Esq.,

*Counsel, United States Senate Subcommittee on Banking and Currency  
New York, N.Y.*

DEAR MR. PECORA: I duly received your letter of September 30, 1933, enclosing a proposed "questionnaire." I have examined the latter with great care. As you point out, the exchange itself has in its possession certain of the information necessary to answer a number of the questions. These facts we will make available to you as promptly as possible.

In many instances, however, the information would have to be obtained from members of the exchange. I have noted your suggestion that this be secured by having the exchange address a questionnaire to its members. I have grave doubt that this procedure could be followed. Much of the information which you seek through us from our members could only be had, if at all, at great expense and trouble to them. Much of it involves questions of purely private affairs of members and their customers. There is the further difficulty that throughout the questionnaire a number of general terms are used without any precise definition. This, I am sure, might lead to confusion, and might result in securing answers which would not give the precise information which you are seeking.

In view of the number of questions raised by your request, I think it would be very helpful if we could have a personal conference on the entire subject. I will, of course, be pleased to see you at any convenient time.

I understand that Mr. Meehan of your office has been informed of the progress which the accounting department of the exchange has made in regard to the investigation of the trading in the so-called "alcohol stocks" during the period from May 15 to July 24 of this year. I have just been advised that the examination of some 99 member firms has been completed and that a final report is in course of preparation. We have made every effort to expedite this work, but the number of houses which had to be visited and the number of accounts that had to be analyzed was so great that it has been impossible to complete it more promptly.

Faithfully yours,

RICHARD WHITNEY,  
*President.*

CARTER, LEDYARD & MILBURN,  
New York, October 14, 1933.

RICHARD WHITNEY, Esq.,

*President New York Stock Exchange, New York City.*

MY DEAR MR. WHITNEY: You have referred to us a copy of the letter addressed to you under date of September 30, 1933, by Mr. Ferdinand Pecora, counsel for the Subcommittee of the Banking and Currency Committee of the United States Senate, and have asked our opinion as to whether the exchange may require its members to furnish the information requested in the so-called "questionnaire" which was annexed to his letter.

This letter was not received until October 2. Under date of October 5 you replied stating that, aside from the question of whether the exchange might require the information sought by the questionnaire from its members, you doubted whether informative answers could be secured to questions which were phrased in such vague and general terms. You, therefore, suggested a personal interview in which these questions could be clarified. On Friday evening, October 6, Mr. Pecora asked your secretary to arrange for an interview on the following Monday. This proved to be impossible, on account of your existing engagements. On Monday afternoon, October 9, Mr. Pecora telephoned to me and asked whether you would be willing to see some of his subordinates, as he would be engaged throughout the week in conducting the hearings before the Senate committee in Washington. A conference was arranged for the

following day at which Mr. David Schenker, an assistant counsel to the Senate committee, and Mr. John T. Flynn, an employee of the Senate committee, spent several hours going over with us the form of the questionnaire. A second interview was held on Wednesday and Mr. Schenker and Mr. Flynn again visited your office and spent several hours in further revising the questionnaire.

As a result of these conferences, the situation stands as follows:

The questions asked under the subheading (A) of the questionnaire, with one single exception, are now in such form that the information requested can be furnished by the exchange. This single exception and the questions asked under the subheadings (B), (D), (E), (F), and (J), all require information which is not in the possession of the exchange.

The questions asked under subheading (C), in regard to the odd lot houses, we have agreed to submit to the firms involved and to act as a conduit for the information or not as the particular firms desire.

The questions asked under the subheadings (G), (H), and (I) have been temporarily held in abeyance, so that Messrs. Schenker and Flynn may consider further whether this information is necessary or desirable.

The questions asked under the subheadings (K), (L), (M), and (N) are now in such form that the information requested can be furnished by the exchange.

You have already advised Mr. Pecora that where the information requested is in the possession of the exchange it will be furnished to him as promptly as possible. The sole remaining question, therefore, is whether the exchange, by sending out a questionnaire to its members, should require them to furnish the information which is being sought.

Under the constitution of the exchange the governing committee has power to secure information by questionnaire from the members of the exchange. This power has been used whenever the governing committee felt that it was necessary to investigate irregular transactions or practices which might properly affect the market. Without attempting to record all of the instances in which questionnaires have been sent to members of the exchange in recent years, I should perhaps remind you that it was used in the alleged corner in Wheeling & Lake Erie stock some years ago, in the Manhattan Electrical Supply Co. cases in 1927 and 1930, and for the statistics in regard to short selling not only at the time of the panic in 1929 but again currently since the early part of 1931. In each instance where the Senate committee represented to the exchange that the market had been affected by irregular or unfair practices this power was invoked to secure the facts. I refer, of course, to the special questionnaire sent in regard to the short position on April 8, 1932; to the investigation of the trading in Kreuger & Toll securities at the time of Ivar Kreuger's death; and to the investigation, recently concluded, of the rumors that pool transactions in the so-called "alcohol stocks" had affected the market in the early part of this year. In other instances where the testimony before the Senate committee seemed to have a direct bearing upon the conduct of members of the exchange the governing committee has used its power to ascertain the facts by requiring the members of the exchange to furnish it with information. These instances, however, furnish no precedent for the present case. The information sought by the proposed questionnaire has no direct bearing on market practices or on the conduct of members of the exchange. On the contrary, it consists primarily of what might be described as general statistics.

There is no doubt that a committee of Congress has power to secure, by subpoena, information which is necessary or pertinent to the framing of legislation. Our courts have upheld the existence of this power and by liberal interpretation have given legislative committees the right to seek any information which is proper and relevant to the work of the Congress. Although the Senate committee may directly seek information by requiring citizens to testify before it, we have found no authority which would support the theory that it has power to compel one citizen to secure for its use information from another citizen.

The committee's counsel frankly recognizes that the information sought by his questionnaire is not in the possession of the exchange. A subpoena, therefore, served upon the exchange would not produce the information which he seeks. He likewise realizes that he may, if it is proper and relevant to the pending inquiry, secure the information which he desires by serving subpoenas upon the individual members of the exchange and by compelling them to appear before the Senate committee in Washington. Instead of using this recognized method he has asked the exchange to secure this information for him by



sending a questionnaire to its members. He urges that this procedure be followed as it will be "the speediest and most convenient method" of securing the information. In other words, he wishes the governing committee of the exchange to use its power to compel the members of the exchange to answer the questions contained in the questionnaire. Under the constitution of the exchange any member who fails to furnish information required of him by the governing committee may be suspended or expelled. If, therefore, the exchange should undertake to send out the proposed questionnaire, the members of the exchange would not only be compelled, at the risk of being disciplined by the governing committee, to answer, but they would also be effectively deprived of the right, which they would possess if they were subpoenaed to appear before the Senate committee, to raise the question of whether the information sought from them was proper and relevant to the pending investigation. Much as the exchange may desire to facilitate the investigation which the Senate committee is conducting, I do not believe that it should even for this purpose, use a method which will deprive the members of the exchange of a substantial right. For this reason, it is my opinion that the exchange should refuse to send to its members the suggested questionnaire.

Yours very truly,

ROLAND L. REDMOND.

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NEW YORK STOCK EXCHANGE,  
New York, October 16, 1933.

FERDINAND PECORA, Esq.,

*Counsel United States Senate Subcommittee on Banking and Currency,  
New York, N.Y.*

MY DEAR MR. PECORA: I enclose herewith a copy of Mr. Redmond's opinion in regard to the question of whether the exchange should require its members to furnish the information called for by the questionnaire which was attached to your letter of September 30. In view of this opinion I have decided, with the approval of the governing committee of the exchange, that we would not approve the suggestion contained in your letter that the exchange should send the questionnaire to its members.

As to the information sought by the questionnaire which is in the possession of the exchange, the work of compilation is going forward rapidly and should be in your hands by the latter part of this week.

I am sending you under separate cover the report of the accountant of the exchange in regard to the alleged pool trading in the alcohol stocks during the spring and early summer of this year. This is now complete except for the report on one firm, which I will furnish you as soon as possible.

There are certain practical considerations in regard to the information which you asked the exchange to secure from its members which I feel I should bring to your attention. As originally submitted, your questionnaire would have required the members of the exchange to furnish detailed facts in regard to their transactions over a period of almost 5 years. In many instances it would have been necessary to have each customer's account examined and analyzed. This would have required a stupendous amount of work and the expenditure by members of the exchange of many millions of dollars. Mr. Schenker and Mr. Flynn apparently realized that the expense of answering the questions as originally drafted was prohibitive and they, therefore, suggested a modification of some of the questions so as to make them less burdensome. Even in the modified form the work which would be imposed on the members of the exchange would be indeed oppressive and I estimate its cost would in the aggregate amount to several millions of dollars. I do not believe, therefore, that the exchange should, in justice to its members, adopt your suggestion and impose any such huge expenditure upon them for the sole purpose of securing economic statistical information.

Another fundamental objection to the proposed questionnaire is that it would certainly produce inaccurate and incomplete results. I am advised that similar questionnaires have been sent to a number of stock exchanges throughout the country. Many members of the New York Stock Exchange are also members of these exchanges. There was therefore a serious danger of duplication which would have destroyed the true and accurate value of any statistics sought in this manner.

Furthermore, certain of the questions, particularly those referring to the income of members of the exchange and to the number of, and the debit balances in, margin accounts carried by them in 1929 and in 1933, would have required the members of the exchange to furnish to you information which they have already given or are currently furnishing to the Department of Internal Revenue. I was advised by your associate that the records of the Treasury Department are available to you and it therefore seemed grossly unfair to compel the members of the exchange to furnish the same information, almost duplicate in certain aspects, to two departments of the Government.

In closing, I should perhaps remind you that the position taken by the exchange in regard to this questionnaire is consistent with the position which it has taken ever since the Senate investigation started in 1932. We have always been willing to cooperate to the fullest possible degree in securing information for the Senate committee. We have at very great expense furnished it with a vast amount of information. We have, however, always taken the position that information in regard to the particular and personal affairs of members of the exchange should be sought directly from them and not indirectly through the exchange. Mr. Gray, who was formerly counsel to the Senate committee, recognized the propriety of this position and I am advised that the detailed information which he sought of members of the exchange was secured through the service of subpoenas upon such members and the examination of their books and records either before the Senate committee itself or by accountants employed by the committee in New York, if the counsel to the Senate committee and the members agreed that this method was preferable to presenting the records publicly in Washington. In declining, therefore, to compel the members of the exchange to answer the questionnaire which you submitted to me, we are merely adhering to an established and consistent precedent, and in no way seeking or wishing to delay the investigation now in progress.

As I have received a great many inquiries from members of the exchange regarding the proposed questionnaire—inquiries which were undoubtedly due to the publication of the fact that a questionnaire had been sent to the exchange—I am sending the members copies of our correspondence on this subject.

Faithfully yours,

RICHARD WHITNEY, *President*.

NEW YORK STOCK EXCHANGE,  
October 16, 1933.

To all members:

To make entirely clear the position taken by the exchange in regard to the suggestion contained in the letter of September 30, 1933, received from Mr. Ferdinand Pecora, counsel to the United States Senate Subcommittee on Banking and Currency, with respect to the sending of the questionnaire accompanying his letter to the members of the exchange, I attach herewith the following data:

1. Copy of Mr. Pecora's letter of September 30, 1933.
2. Copy of the questionnaire accompanying his letter.
3. Copy of my reply of October 5, 1933.
4. Copy of opinion of Mr. Roland L. Redmond, of Messrs. Carter, Ledyard & Milburn, counsel to the exchange, under date of October 14, 1933.
5. Copy of my further answer to Mr. Pecora, dated October 16, 1933.

Faithfully yours,

RICHARD WHITNEY, *President*.

COMMITTEE EXHIBIT No. 27, OCTOBER 20, 1933

METROPOLITAN SECURITIES CORPORATION,  
New York, April 10, 1929.

BROOMHALL, KILLOUGH & Co., INC.,  
New York City.

GENTLEMEN: We have this day formed an account for the purchase and sale of stock of The Chase National Bank and Chase Securities Corporation.

The account may trade in such stock, and/or rights to subscribe for stock, and/or new stock, with the understanding that, as a result of such trading,

the account shall not be long or short at any one time more than the equivalent of 6,000 shares of old stock.

Any stock in the account will be carried by Metpotan Securities Corporation, and we will charge the account at the end of the month 5 percent interest per annum for carrying. The account will run for a period of 90 days from April 10, 1929, but may be further extended by mutual consent of all the members. The account has today purchased 5,394 shares at \$1,150 per share.

Members of the account and their respective interests are as follows: McClure, Jones & Co., one sixth; Potter & Co., one sixth; Broomhall, Killough & Co., Inc., one sixth; Metpotan Securities Corporation, one half.

Kindly confirm that the above is in accordance with your understanding.

Very truly yours,

W. W. DOWNING, *Secretary*.



# STOCK EXCHANGE PRACTICES

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MONDAY, OCTOBER 23, 1933

UNITED STATES SENATE,  
SUBCOMMITTEE OF THE COMMITTEE ON  
BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to adjournment on Friday, October 20, 1933, at 10 a.m., in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Gore (substitute for Barkley), Adams (proxy for Costigan), Couzens, Townsend, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver, David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Martin Conboy, counsel for Albert H. Wiggin; Eldon Bisbee, Alfred E. Mudge, A. M. Williams, Joseph B. Lynch, Julian L. Hagen, and C. Horace Tuttle of Rushmore, Bisbee & Stern, and also William Dean Embree and A. Donald MacKinnon of Milbank, Tweed, Hope & Webb, counsel for The Chase National Bank and The Chase Corporation.

The CHAIRMAN. The subcommittee will come to order. Mr. Pecora, who is your first witness?

Mr. PECORA. Mr. Charles Batchelder.

The CHAIRMAN. Is Mr. Batchelder present?

Mr. BATCHELDER. Yes, Mr. Chairman.

The CHAIRMAN. Please stand, hold up your right hand, and be sworn: You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matters now under investigation by this committee. So help your God.

Mr. BATCHELDER. I certainly do.

## TESTIMONY OF CHARLES F. BATCHELDER, NEW YORK CITY, A VICE PRESIDENT OF THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

Mr. PECORA. Mr. Batchelder, will you give your full name and address to the committee reporter?

Mr. BATCHELDER. Charles F. Batchelder, B-a-t-c-h-e-l-d-e-r; 18 Pine Street, New York.

Mr. PECORA. Are you connected with the Chase National Bank of the City of New York?

Mr. BATCHELDER. I am.

Mr. PECORA. In what capacity?

Mr. BATCHELDER. As a vice president.

Mr. PECORA. How long have you been connected with that bank?

Mr. BATCHELDER. I was made a vice president of the Chase Bank, I think in June or thereabouts of this year.

Mr. PECORA. Prior to June of this year were you connected with the Chase Bank in any other capacity?

Mr. BATCHELDER. No.

Mr. PECORA. Are you connected or were you connected with a corporation called Chase Securities Corporation?

Mr. BATCHELDER. I was.

Mr. PECORA. When did you first become connected with that corporation?

Mr. BATCHELDER. In November of 1923.

Mr. PECORA. In what capacity?

Mr. BATCHELDER. I returned to this country after 4 years abroad, or, that is, of being outside the country, and simply entered their employ, without title.

Mr. PECORA. Did you thereafter become an officer, or director?

Mr. BATCHELDER. I became an officer, but was never a director.

Mr. PECORA. What office did you first hold?

Mr. BATCHELDER. I think I was first assistant vice president—and, you will understand, I am speaking now entirely from memory—but it must have been the latter part of 1929, and later than that, and perhaps after a couple of years, I was made a vice president.

Mr. PECORA. And have you continuously served as a vice president of that corporation since that time?

Mr. BATCHELDER. That is right.

Mr. PECORA. That corporation is now known as the Chase Corporation?

Mr. BATCHELDER. That is right. I was never an officer of the Chase Corporation.

Mr. PECORA. Well, it became the Chase Corporation in May of this year by virtue of a change or an amendment to its charter and by-laws, I believe. Is that right?

Mr. BATCHELDER. Well, I cannot verify the date. I had no interest in that. But I think it is so.

Senator COUZENS. What did you specialize in if you did specialize in anything when you were acting for Chase Securities Corporation?

Mr. BATCHELDER. I wouldn't say that I was specializing, Senator Couzens. I went abroad for them, and was in Germany, and I had done a good deal of Canadian business for them. My whole experience and training has been of a general nature, and I do not suppose I am an expert on anything, but I think I have had a good deal of knowledge in a practical way at least of the operation of the security business.

Senator COUZENS. But did you specialize in foreign loans. You said you went abroad, I believe.

Mr. BATCHELDER. Yes, sir.

Senator COUZENS. And did you specialize in foreign loans?

Mr. BATCHELDER. No; I, perhaps, did more of that than anything else, however.

Senator GORE. When was Chase Securities Corporation organized?

Mr. PECORA. In 1917 Senator Gore, which is already in the record.

Senator GORE. All right.

Mr. BATCHELDER. Mr. Pecora, might I make a statement as I go along here, for the purpose——

Mr. PECORA (interposing). Yes.

Mr. BATCHELDER. The first I heard that I was going to be, possibly, called on this Cuban matter was last night and, perhaps, a little after 10 o'clock. On Saturday I was in New York. A list of the officers who were expected to be wanted down here was telephoned to New York, and my name was not on that list. The first I heard I was going to be called this morning was, perhaps, 15 minutes ago. I am not as well informed for the moment on all of the details of this Cuban matter as I should like to be, but——

Mr. PECORA (interposing). Well, who is?

Mr. BATCHELDER. Let me finish the story, if you please.

Mr. PECORA. Talk up a little louder. I cannot hear you.

Mr. BATCHELDER. From the record, Mr. Shepard Morgan has made an intensive study, from start to finish, of the Cuban loan, in co-operation with Mr. Geiger, who is sitting here on my left. Mr. Rosenthall, who is an active man in the Habana branch, is also here. Mr. Shepard Morgan, whom I have referred to, is a man who has made over a period of time an intensive study of this matter, from the record. My contact with the Cuban loan, aside from the \$40,000,000 loan, was in connection with a preliminary study, beginning with 1925, I think it was, or 1926, to get a first impression of this public-works program and of the revenues and the way it would operate, which involved a discussion with the Secretary of the Treasury and the secretary of public works——

Mr. PECORA (interposing). I do not hear you.

Mr. BATCHELDER. As I say, aside from that, my connection did have to do with the \$40,000,000 loan negotiated in February of 1930, as I recall. That was the last financing under the public-works program. I was in Habana perhaps 6 weeks altogether from start to finish on that. That involved a number of discussions and negotiations with departmental officials, and particularly a negotiation with the President, General Machado, which was, as far as I know, one of the most complete that I had with him on this program. That resulted in the negotiation for and the purchase and sale of \$40,000,000 5½-percent public-works bonds. In the short time at my disposal after 10 o'clock at night I have refreshed my memory on that. But as regards the intermediate pieces of financing, I am not anything like as well informed as are other men, who, as I say, I am sure can give you a very satisfactory explanation of the details of all those transactions.

Mr. PECORA. To your knowledge did Mr. Shepard Morgan have anything to do personally with the negotiations that led up to the making of those loans?

Mr. BATCHELDER. I do not know. He was down there several times. I do not know just exactly how extensive and comprehensive his connection was with that phase of it. But I should think he ought to know the whole story from start to finish.

Mr. PECORA. There was some inquiry made into these Cuban loans by the Finance Committee of the United States Senate in the early part of 1932. At that time Mr. Carl Schmidlapp was put forward, apparently by the Chase National Bank, as the officer of the bank best qualified to submit to examination with regard to those loans.



Mr. WILLIAMS. Mr. Pecora, might I explain that?

Mr. PECORA. Will you please give your name for the record?

Mr. WILLIAMS. My name is A. M. Williams.

Mr. PECORA. All right.

Mr. WILLIAMS. At that time Mr. Shepard Morgan, who has been in charge of Cuban financing since 1931, was out of the country, in Cuba. He was not available to be sent down before the committee at that time, so Mr. Schmidlapp, as the only one available, came down to testify from the record, but not as having personal knowledge of any phase of the Cuban business from beginning to end.

Mr. PECORA. I understood that Mr. Batchelder had something to do with the active negotiations that led to the making of those loans, and that he could testify from personal knowledge as well as from hearsay. Whereas, Mr. Morgan, as I understood it, had very little if anything to do with the active negotiations that led to the making of the loans, and that his testimony, hence, would be based solely upon hearsay.

Mr. WILLIAMS. Based upon the records.

Mr. PECORA. But almost entirely upon hearsay.

Mr. WILLIAMS. His testimony would be based upon the records of the bank.

Mr. PECORA. Well, that is hearsay so far as he is concerned, isn't it, Mr. Williams?

Mr. WILLIAMS. Except in so far as the official records of the bank are the evidence of that institution.

Mr. PECORA. Well, he knew nothing about the events that are chronicled in those records. His knowledge is based upon the records, isn't it?

Mr. WILLIAMS. Yes, except—

Mr. PECORA (interposing). Are there any witnesses here, Mr. Williams, connected with the bank, or connected with the Chase Corporation, who can testify with regard to the negotiations that were actively conducted and which led to the making of those loans, and who can give their testimony upon personal knowledge rather than based upon hearsay?

Mr. WILLIAMS. Mr. Pecora, in 1926, when the negotiations were begun, Mr. Robert I. Barr, a vice president of the Chase Bank, was in charge of the Havana end of it and of all the Cuban business. He was also in charge of the branches of the bank in Panama and Colon. Mr. Barr personally handled the negotiations which led to the first stage of the financing, namely, the 10 million dollar credit granted in 1927.

He personally handled the negotiations which led up to the second stage of the financing, namely, the conversion of that 10-million-dollar credit into the revolving credit of 60 million dollars. Mr. Barr handled the situation right down to about February of 1930, at a time when I think he was in Germany, or at least was not available, and then Mr. Batchelder went to Cuba with Mr. Bisbee, on the last loan, namely, the 40-million-dollar public-works bonds, and the 20-million-dollar credit. So in the first stage of the financing the only officer of the bank directly familiar with it was Mr. Barr, who, unfortunately, died in 1930.

The CHAIRMAN. Mr. Williams, you are a member of the firm of attorneys for the Chase National Bank, are you?

Mr. WILLIAMS. Yes, Mr. Chairman. And I may say that from the beginning I have been connected with this Cuban financing, either on the ground in Cuba or at the New York end, connected by telephone or by cable or by letter.

The CHAIRMAN. Are you at present attorney for the Chase National Bank?

Mr. WILLIAMS. I am a member of the firm of Rushmore, Bisbee & Stearn, and we do counsel work for the Chase. We are not under a retainer from the bank, but we are regularly its counsel on matters referred to us.

The CHAIRMAN. The hearings held before the Finance Committee, under Senate Resolution 19, part 4, pages 1943-1945 and on to subsequent pages, show that Mr. Schmidlapp seems to have been the principal witness, and he made quite an extensive statement, and was cross-examined quite fully on that matter.

Mr. WILLIAMS. He did, but he made his statement from the records of the bank and not from the standpoint of his knowledge on the ground.

Mr. PECORA. And that is what you purpose Mr. Morgan to do before this committee, to give his statement from records made by somebody else. He would have to rely on the records of the bank made by somebody other than himself, as I understand it.

Mr. WILLIAMS. Yes, sir. Mr. Morgan was not on the ground when the first two stages were negotiated. That is perfectly true. But there is no one else connected with the bank who was. The one who handled those stages is now dead, as I told you a moment ago.

Mr. PECORA. You are now putting forward Mr. Morgan in the same way that Mr. Schmidlapp was put forward before the Senate Finance Committee, as the one who was best qualified to answer questions, because he had examined the records and made a study of them. He was put forward for that reason rather than because he had personal knowledge from active participation of the matters that were the subject of inquiry.

Mr. WILLIAMS. As the one who is best informed from an examination of the records, and from his own experience since 1931, to give this committee a complete, accurate, and true statement of facts concerning this Cuban financing from beginning to end.

Mr. PECORA. Well, I prefer to have those facts testified to by persons having personal knowledge of them rather than by persons who have prepared themselves by an examination of the records in the making of which they had no part. That sort of thing was done with Mr. Schmidlapp before the Senate Finance Committee, and my experience is that it is not calculated to get the best evidence.

Senator COUZENS. Well, let us go ahead with Mr. Batchelder.

The CHAIRMAN. Is Mr. Schmidlapp present?

Mr. PECORA. I am willing to examine Mr. Schmidlapp on this, if desired. He was put forward 2 years ago as the expert on these loans. Now let him take the stand, and I am willing to examine him. He is here, as I understand.

Mr. WILLIAMS. We merely suggest Mr. Morgan, Mr. Pecora, in order to aid this committee.

Mr. PECORA. Well, all right. But I do not think you aid the committee by asking that one take the stand who, so to speak, is going

to tell us something he has prepared himself to tell merely from an examination of the records, and not from personal knowledge.

Mr. WILLIAMS. Mr. Schmidlapp would have to testify on that basis during the years 1927 and 1928, because he did not personally handle those transactions.

Mr. PECORA. But the bank put him forward as its witness before the Senate Finance Committee nearly 2 years ago.

Mr. WILLIAMS. As the only witness who could——

Mr. PECORA (continuing). Now, you want to put Mr. Shepard Morgan forward for the same reason.

Mr. WILLIAMS. We are merely suggesting it in order to try to be helpful to you in the circumstances.

Mr. PECORA. Is Mr. Freeman here?

Mr. WILLIAMS. Yes, sir.

Mr. BATCHELDER. I should like to make clear in the matter of the 40-million-dollar loan——

Mr. PECORA (interposing). I understand that Mr. Batchelder has stated, either in words or in substance, to our examiners that he was waiting for a chance to come before this committee to give some testimony, and that he would show something.

Mr. BATCHELDER. No; I did not. That is absolutely incorrect.

Mr. PECORA. I wanted to accommodate Mr. Batchelder, that is all.

Mr. BATCHELDER. Well, that is absolutely incorrect. I can testify on the 40-million-dollar loan. I think I explained my position thoroughly. I came down here prepared on another subject entirely.

Mr. PECORA. According to the testimony that you can give regarding this 40-million-dollar loan, it would seem to me, you could also testify rather in detail with regard to the loans that preceded it, because those loans were refunded by the 40-million-dollar loan.

Mr. BATCHELDER. Only in part.

Mr. PECORA. All right, in part.

Mr. BATCHELDER. And that was all preliminary work, and it was all of very little practical value in considering the problems surrounding the \$40,000,000 loan. That was very elemental.

The CHAIRMAN. Do I understand, Mr. Batchelder, that you know about the \$40,000,000 loan?

Mr. BATCHELDER. I was down in Cuba for a matter of 6 weeks and carried on the negotiations. The contract was drawn down there and signed.

The CHAIRMAN. And that is the only loan of which you have personal knowledge?

Mr. BATCHELDER. That is the only loan of which I have absolutely any first-hand knowledge or experience.

The CHAIRMAN. You might let him testify as to that.

Mr. PECORA. But, Mr. Chairman, that would take up the story about in the middle. I want the beginning.

Mr. BATCHELDER. That is the last loan.

Mr. EMBREE. Mr. Pecora, might I say a word?

Mr. PECORA. Surely, Mr. Embree.

Mr. EMBREE. Although counsel are not prominent in this proceeding, we do bear a certain responsibility in the matter. Mr. Williams and I have worked on this case endeavoring to prepare this testimony in a way that it would be most helpful to the committee.



We were confronted at the outset with the deaths of Mr. Barr and Mr. Callahan.

We then set about preparing for this hearing the man whom we thought could give the clear and consecutive story; and I thoroughly agree with you, Mr. Pecora, that wherever you can get direct testimony you want that. But I do suggest in the interest of orderly procedure that you allow us to put forward the witness we have prepared to tell the consecutive story; with the understanding, of course, that the committee would then call Mr. Batchelder and Mr. Schmidlapp and Mr. Geiger, or anybody else, who may have any direct knowledge of the matter. But counsel would feel that they had not done their duty, sir, if we did not urge that the testimony go in in as orderly a way as possible.

Senator GORE. Can Mr. Morgan tell the story from beginning to end?

Mr. EMBREE. Yes, Senator Gore; he can do so. He came prepared to do that very thing.

Mr. WILLIAMS. Mr. Morgan has been in direct charge of all this Cuban situation since 1931.

Senator GORE. That might make a good background.

Mr. WILLIAMS. And during that period of time of course he had familiarized himself with all that went on before, in order to be in position to handle efficiently his current duties after that date.

Mr. PECORA. Well, then, if Mr. Morgan will indicate throughout the course of his testimony when he testifies on the basis of personal knowledge and when he testifies on the basis of hearsay; and, if the source of his hearsay are gentlemen who are present, he will so indicate in the course of his testimony, I have no objection to proceeding in that way.

Mr. WILLIAMS. Mr. Morgan will be very glad to do that.

Mr. PECORA. All right.

The CHAIRMAN. Mr. Batchelder will stand aside for the present. Is Mr. Morgan here?

Mr. MORGAN. Yes, sir.

The CHAIRMAN. Please stand, hold up your right hand, and be sworn: You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matters now under investigation by this committee. So help you God.

Mr. MORGAN. I do.

**TESTIMONY OF SHEPARD MORGAN, NEW YORK CITY, A VICE  
PRESIDENT OF THE CHASE NATIONAL BANK OF THE CITY OF  
NEW YORK**

Mr. PECORA. Mr. Morgan, give us your full name and address for the record.

Mr. MORGAN. Shepard Morgan, 18 Pine Street, New York.

Mr. PECORA. Are you connected with the Chase National Bank of the city of New York?

Mr. MORGAN. I am.

Mr. PECORA. In what capacity?

Mr. MORGAN. As a vice president.

Mr. PECORA. How long have you been a vice president?

Mr. MORGAN. Since June 1, 1930.

Mr. PECORA. Prior to that time were you associated with the bank in any other position or capacity?

Mr. MORGAN. No; I was a vice president of the Equitable Trust Co. for about 5 weeks prior to the merger.

Mr. PECORA. And it was merged with the Chase National Bank in 1930?

Mr. MORGAN. Yes.

Mr. PECORA. Were you ever connected with the Chase Securities Corporation?

Mr. MORGAN. Never.

Mr. PECORA. Did you have any personal participation in any of the negotiations that led to the making of these so-called "Cuban loans" that are to be the subject of your examination?

Mr. MORGAN. Small credits of June 1932, December 1932, June 1933; yes. As to the others, no.

Mr. PECORA. The loans that preceded those credits are the principal loans and credits, are they not?

Mr. MORGAN. In dollars; yes. The later loans were for the purpose of maintaining Cuba's credit and the interest of the American investor and of the Cuban Government, and included among the American investors, of course, are the Chase Bank itself and its associates, the participants in the so-called Bankers Credit.

Mr. PECORA. It has been indicated here this morning by the gentlemen representing The Chase National Bank and the Chase Securities Corporation, that you had made a special study of some kind of all the facts and records and the transactions relating to all these Cuban loans in which the Chase Bank and the Chase Corporation took any part. Have you done so?

Mr. MORGAN. It was inevitable that I should, Mr. Pecora. I have been in charge since 1931 of the Cuban finances.

The CHAIRMAN. What do you mean by "small credits"?

Mr. MORGAN. Senator, in June 1932 it became apparent that the revenues of the Cuban Government would not be sufficient to meet the interest and maturing principal due on June 30 of that year. We then organized a small group to assist Cuba in the emergency at that time. There was a very large maturity of serial certificates then due, in the amount of 6 millions and a quarter. For that reason we arranged a small bankers credit and assisted Cuba over that period.

The same procedure in general form was followed the following December and in the following June, that is to say, June of 1933.

The CHAIRMAN. You spoke about organizing a small group. Who composed that group?

Mr. MORGAN. The Chase National Bank in the first instance, together with the Chase Securities Corporation, the National City Bank, the Continental Illinois National Bank & Trust Co. of Chicago. These 3, or as the case may be, 4 institutions, were the participants in the bankers credit.

Senator GORE. When was the first series of loans now under consideration made?

Mr. MORGAN. I beg pardon, Senator?

Senator GORE. When was the first of the series of Cuban loans now under consideration made?

Mr. MORGAN. On February 19, 1927.

Senator GORE. How much?

Mr. MORGAN. \$10,000,000.

Senator GORE. How many have been made altogether?

Mr. MORGAN. Three major, three minor.

Senator GORE. The majors aggregate how much?

Mr. MORGAN. The amount of money involved in the three major arrangements—80 million dollars.

Senator GORE. And the minor?

Mr. MORGAN. Aggregating about seven and a half millions.

Senator GORE. You will put the date of each one in the record, will you not?

Mr. MORGAN. The date of the first agreement was February 19, 1927.

Mr. PECORA. That was the 10-million-dollar one?

Mr. MORGAN. Ten million dollars. The date of the second agreement was June 22, 1928.

Mr. PECORA. What amount?

Mr. MORGAN. That converted the original 10-million-dollar credit into a revolving credit of 60 million dollars.

Senator GORE. That was "inflation"?

Mr. MORGAN. That is a subject that I am not sympathetic with; that is to say, inflation, Senator.

Senator GORE. I agree with you there.

Mr. MORGAN. The third agreement February 26, 1930.

Mr. PECORA. For what amount?

Mr. MORGAN. That was in part a refunding agreement refunding 30 million dollars of serial certificates, turning the 10 million dollars of deferred payment work certificates into a 40-million-dollar bond issue maturing in 1945; that is, into 15-year bonds. In addition the banking group provided 20 million dollars of bank credit for the further prosecution of the public works undertaken. In other words, the banks went along with the public in the financing at that time.

Senator COUZENS. What date was that?

Mr. MORGAN. February 26, 1930.

The CHAIRMAN. Have you examined the hearings before the Finance Committee that I referred to, printed in part 4 of those hearings?

Mr. MORGAN. Senator, I am sorry, I cannot hear.

The CHAIRMAN. I say, have you examined the hearings before the Finance Committee printed in part 4, January 22 and February 20, I think it is, 1932?

Mr. MORGAN. Yes, sir.

The CHAIRMAN. Those hearings contain all those agreements, do they not?

Mr. MORGAN. They do.

The CHAIRMAN. Then I submit there is no need to reprint them here.

Mr. PECORA. No. You may make references from time to time to certain extracts from those agreements.

The CHAIRMAN. Beginning at page 1978.

Senator ADAMS. Mr. Morgan, just one inquiry: You speak of the conversion of the 10-million-dollar loan into an 80-million-dollar revolving fund.



Mr. MORGAN. Sixty million, Senator.

Senator ADAMS. Sixty. Would you give just a brief statement as to how that was accomplished and the other contributions to that fund?

Mr. PECORA. Senator Adams, I was going to suggest to you, before you press that question, that I am going to go into that in detail in its chronological order, but if you want this information now, very well.

Senator ADAMS. No; I was rather suspended in the air about that, and I am perfectly willing to wait.

Senator GORE. Can you state the total amount of Cuba's indebtedness when the first loan was made in '27?

The CHAIRMAN. You mean total indebtedness or indebtedness to the bank?

Mr. PECORA. No; outstanding.

Senator GORE. Total external debt at the time that loan was made. If you cannot answer it, why, all right.

Mr. MORGAN. Yes; we have it here, Senator. The total external debt on June 30, 1927, was \$79,441,900.

Senator GORE. How much is it now?

Mr. MORGAN. On May 31, 1933, \$77,929,700.

Senator GORE. It has been reduced?

Mr. MORGAN. It has been reduced.

Senator GORE. And how much did the Chase or your associates lend during that interval altogether?

Mr. MORGAN. I want to have this testimony as accurate as possible, Senator. In addition to the 77 millions which I mentioned is \$81,250,000 of public-works debt, making a total of \$159,179,700.

Senator GORE. How much did this public-works debt amount to back in '27?

Mr. MORGAN. It had not yet begun to form itself.

Senator GORE. How is that?

Mr. MORGAN. There was no public-works debt in 1927. That was the beginning of the project.

Senator GORE. That has all been incurred in the interval?

Mr. MORGAN. Yes.

Senator GORE. From '27 down to date; and the other indebtedness has remained practically the same, 77 millions?

Mr. MORGAN. It has been slightly reduced, but in the meantime has been included this sugar stabilization debt, which tended to maintain a level of debt.

Senator GORE. How much is that?

Mr. MORGAN. Originally 37 millions, and now in round figures 22 millions.

Senator GORE. When was that first made?

Mr. MORGAN. The date of the sugar stabilization credit when first opened I have not in mind, but I should say about 1931 [after conferring with associate]—1930; I am told.

Senator GORE. How much of this 81 millions public works now has the Chase lent or participated in?

Mr. MORGAN. Sixty.

Senator GORE. Who lent the other?

Mr. MORGAN. Sixty-one million two hundred and fifty thousand, as of May 31, 1933.

Senator GORE. And who lent the other?

Mr. MORGAN. That is the debt to the contractors, so-called; a third lien on the public-works debt.

The CHAIRMAN. You did not mention the internal debt?

Senator GORE. Yes; how much is the internal debt?

Mr. MORGAN. The funded debt is \$7,816,400 on June 30, 1933.

Senator GORE. And how much was it in '27?

Mr. MORGAN. And in 1927, \$10,614,200.

Senator GORE. Now, can you insert at this place the annual revenues of Cuba during these years from '27 down to date?

Mr. MORGAN. Yes, Senator. I will give the figures, Senator, exclusive of public-works revenues, and I will give them, if you desire, as an addendum.

Senator GORE. Yes.

Mr. MORGAN. I should say that the Cuban fiscal year is the same as that of the United States, from July 1 to June 30. The fiscal year 1927 to 1928 the revenues were \$81,973,000; 1928-29, \$79,325,000; 1929-30, \$77,136,000; 1930-31, \$59,581,100; 1931-32, \$47,969,000; 1932-33, 1 month estimated, \$43,969,000.

I should say by way of explanation that the figures for the last 3 years—that is, from 1930-31 to date—are preliminary and subject to revision; but we believe them to be substantially correct.

Mr. PECORA. Will you give the expenditures for those years for which you have given the revenues?

The CHAIRMAN. You did not give the revenue from public works.

Mr. MORGAN. I will give that in a moment, Senator, if I may.

Senator GORE. Insert it at this place.

Mr. MORGAN. You would like the public works revenues at this point?

Senator GORE. I wanted it printed in the record at this point.

Mr. MORGAN. Beginning with 1927 and 1928 as before, the original estimates \$16,000,000, the actual collections \$17,147,925, a surplus of \$1,147,927; 1928-29, original estimate \$18,000,000, actual collections \$18,501,817, a surplus of \$501,817; 1929-30, original estimates \$18,000,000—

Senator COUZENS. You just read that.

Mr. MORGAN. The same. Actual collections \$18,121,937; surplus of \$121,537.

1930-31, again \$18,000,000 original estimate; actual collections \$15,307,011, a minus difference of \$2,692,989.

1931-32, original estimate \$18,000,000; actual collections \$10,756,485, a minus difference of \$7,243,515.

1932-33, the original estimate \$18,000,000; the actual collections, \$9,380,431. That figure is subject to correction, but is approximately correct.

Senator GORE. Is that all?

Mr. MORGAN. That is all, sir.

Mr. PECORA. Senator, I asked him to give the expenditures respectively for these years. I do not believe Mr. Morgan has done that yet.

Mr. MORGAN. No; not yet, Mr. Pecora.

Senator GORE. This estimate, running around 17 or 18 million dollars, does that cover interest and amortization? Those are all serial bonds?

Mr. MORGAN. These are the estimated collections from taxes, Senator.

Senator GORE. I understand, but were these public-works securities serial bonds?

Mr. MORGAN. The second issue was composed of serial certificates.

Senator GORE. How much?

Mr. MORGAN. All told, \$50,000,000.

Senator GORE. What I was trying to get at was, the annual estimate seems to run around 17 or 18 millions. Now I suppose part of that covered interest and part amortization or sinking fund?

Mr. MORGAN. No; it is an estimate of receipts, not of expenditures.

Senator GORE. An estimate, in other words, of the special revenues created by the public works law enacted in July 1925?

Mr. MORGAN. Quite true.

Mr. PECORA. And those apart from the ordinary revenues?

Mr. MORGAN. Quite true.

Senator GORE. And was designed to cover the debt service on these public works?

Mr. MORGAN. Precisely.

Now, may I give the expenditures and ordinary budget?

Mr. PECORA. If you will.

Mr. MORGAN. 1927-28 actual expenditures, \$32,893,000; 1928-29, \$86,765,000.

Mr. PECORA. What were the revenues that year?

Mr. MORGAN. The actual revenues, \$79,325,000.

Mr. PECORA. So there was a deficit of about—

Mr. MORGAN. \$7,000,000.

Mr. PECORA. All right; go ahead.

Mr. MORGAN. 1929-30, \$83,840,000.

Mr. PECORA. What were the revenues?

Mr. MORGAN. \$77,136,000.

Mr. PECORA. So there was a deficit there of about 6 million dollars?

Mr. MORGAN. Yes; 1930-31, \$67,112,000.

Mr. PECORA. Compared to revenues of what amount?

Mr. MORGAN. \$59,581,000.

Mr. PECORA. Another deficit of around 8 million dollars?

Mr. MORGAN. Seven and a half.

Mr. PECORA. All right.

Mr. MORGAN. In 1931-32, \$47,189,000 actual expenditures.

Mr. PECORA. Compared with revenues of what amount?

Mr. MORGAN. \$47,969,000, a small surplus of \$780,000.

1932-33 expenditures of \$45,369,000 against revenues of \$39,491,000.

Mr. PECORA. A deficit of around 6 million?

Mr. MORGAN. Five million eight.

I should say again for the sake of complete accuracy that these figures are subject to revision, but we believe them to be substantially correct.

Mr. PECORA. Now, Mr. Morgan, I understand that you have made some special study of the records and facts with regard to these Cuban loans and are prepared to answer questions thereon?

Mr. MORGAN. From the record, yes.

Mr. PECORA. From the record. Are you familiar with that provision of the Cuban Constitution that is commonly known as the Platt amendment?



Mr. MORGAN. Yes, Mr. Pecora.

Mr. PECORA. That Constitution was adopted back in 1901, was it not, or rather the amendment known as the Platt amendment was adopted that year, is that right?

Mr. MORGAN. Yes.

Mr. PECORA. And it is known as article II of the Constitution. Have you before you the text of that provision?

Mr. MORGAN. We can turn to it. Here it is.

Mr. PECORA. It is very brief. Will you read it into the record?

Mr. MORGAN. Article II?

Mr. PECORA. Yes.

Mr. MORGAN (reading):

That said Government shall not assume or contract any public debt to pay the interest upon which, and to make reasonable sinking fund provisions for the ultimate discharge of which, the ordinary revenues of the Island of Cuba, after defraying the current expenditures of the Government, shall be inadequate.

Mr. PECORA. That constitutional provision was in full force and effect during the times of the making of these loans that you have already made a general reference to?

Mr. MORGAN. Quite true.

Mr. PECORA. Who was the President of Cuba at the time of the extension of the first credit of 10 million dollars on February 19, 1927?

Mr. MORGAN. Gerardo Machado.

Mr. PECORA. When had he become the President of Cuba?

Mr. MORGAN. May 20, 1925.

Mr. PECORA. At that time do you know what the external indebtedness of Cuba was?

Mr. MORGAN. I have it here only for June 30, 1926.

Mr. PECORA. What was it?

Mr. MORGAN. \$84,768,800.

Mr. PECORA. Do you know anything about a message said to have been made by President Machado when he was elected in 1925 that he would not during his term of office increase the public debt of Cuba?

(Mr. Morgan conferred with Mr. Geiger.)

Mr. PECORA. Now, Mr. Geiger, I thought Mr. Morgan had made a special study of all of this. If you have to advise and confer with him to enable him to answer these questions, I have no objection to your doing it, but let the record show that he needs it.

Mr. MORGAN. Will you repeat the question, please?

Mr. PECORA. The reporter will read it.

The shorthand reporter (reading):

Do you know anything about a message said to have been made by President Machado when he was elected in 1925 that he would not during his term of office increase the public debt of Cuba?

Mr. MORGAN. President Machado in his public utterances during the campaign was reported to have said that he would not increase the external debt of Cuba for the sake of carrying out the public-works program which he then had in mind.

Mr. PECORA. Are you familiar with testimony given before the Senate Finance Committee of the Seventy-second Congress or an inquiry held by that committee pursuant to Senate Resolution 19 as

that testimony is recorded in part 2 of the printed minutes of that investigation at page 740 thereof? I refer to the particular testimony of a Mr. Grosvenor Jones. Are you familiar with that testimony?

Mr. MORGAN. I have not read it in probably a year and a half, Mr. Pecora.

Mr. PECORA. Who was Mr. Grosvenor Jones?

Mr. MORGAN. He was in the Department of Commerce. What his position was there I do not recall. He went to Habana at the request of the Ambassador to make an inquiry.

Mr. PECORA. For whom?

Mr. MORGAN. For the Ambassador.

Mr. PECORA. According to the testimony of Mr. Jones appearing at page 740 of those minutes he testified as follows in part—I am reading from page 740 [reading]:

President Machado was elected to office on the pledge that during his term of office Cuba would not increase her public debt. His predecessor, Dr. Zayas, had had to issue \$50,000,000 of bonds to clear up a lot of debt incurred under his predecessor's regime. That was the regime of Menocal. But Machado said solemnly that he was not going to increase the public debt of Cuba.

Proposals were instituted after President Machado took office in 1925 for the construction of a series of public works which included the State Capitol in Habana and a central highway, were they not?

Mr. MORGAN. Correct.

Mr. PECORA. And when was that public-works program first adopted?

Mr. MORGAN. The date of the law which made that program effective was July 15, 1925.

Mr. PECORA. And that is known as the public-works law?

Mr. MORGAN. Correct.

Mr. PECORA. Under that law were any special revenues created for the purpose of servicing any indebtedness that would be incurred in carrying out this public-works program?

Mr. MORGAN. Yes, Mr. Pecora.

Mr. PECORA. And do you know how much these special revenues so created by this act of July 15, 1925, were estimated would be yielded per annum?

Mr. MORGAN. At the beginning 16 million, and running from then on 18 million per annum.

Mr. PECORA. And what proportion of these special revenues so created were required to be set aside for the servicing of any indebtedness that might accrue in the furtherance of this public-works program?

Mr. MORGAN. You mean by law in the beginning?

Mr. PECORA. In the beginning; yes.

Mr. MORGAN. I don't know that. [After conferring with counsel.] The whole thing was dedicated to the prosecution of the public works.

Mr. PECORA. Are you sure of that?

Senator GORE. Can you break those figures down?

Mr. MORGAN. 90 percent of the revenues.

Mr. PECORA. 90 percent of those revenues yielded from these special revenue laws were to be set aside for the servicing of the

indebtedness that was to be incurred in connection with the public works program; that is right, is it?

Mr. MORGAN. Quite true.

The CHAIRMAN. The public works themselves did not yield any revenues, did they? For instance, the Capitol and the highway?

Mr. MORGAN. Senator, it is my opinion that the public works themselves were so designed as very largely to encourage, to stimulate, the revenues which were to pay for the works themselves.

For example, the major part of the public works revenues was the gasoline tax and the license plates on automobiles. Prior to the time of the construction of the highway obviously there was relatively small opportunity for the use of automobiles and the consumption of gasoline in Cuba. It is a practice rather similar to what we have adopted in many parts of our country, to apply a gasoline tax to pay the service on road bonds. And you can find indirect benefits in many of these revenues of a similar sort.

For instance, there were some port improvements.

I have one point there that I would like to introduce, with your permission.

Mr. PECORA. Mr. Morgan, I will come to all that.

Mr. MORGAN. May I respond to the Senator's question first, Mr. Pecora?

Mr. PECORA. We will get to that, step by step.

Mr. MORGAN. May I respond to the Senator's question first? This is very pertinent to the whole operation. The Acting British Consul, in his report to his own Government in November 1925, said, relative to the public works legislation, the following:

The public works law was passed on July 15, 1925, providing, among many improvements, the building of a central highway from one end of the island to the other, with branches connecting it with all the towns and ports along the coast. The necessity for this road from every standpoint is very apparent. It will be a means of obtaining better transport facilities for the sugar products and Cuba's sources of wealth, which up to the present have been inaccessible, will be placed on the market, thereby giving a great impetus to commerce. It will also give employment over a period of years to many who are at present suffering from the general trade depression.

Mr. PECORA. When was that communication of the British Consul?

Mr. MORGAN. November 1925.

Mr. PECORA. When was it brought to the notice or attention of anyone connected with the Chase National Bank or the Chase Securities Corporation for the first time?

Mr. MORGAN. I can only say when it was brought to my attention.

Mr. PECORA. When was that?

Mr. MORGAN. In the course of the study made 2 weeks ago, on rehearsing the economic conditions in Cuba for the last 20 years.

Mr. PECORA. You state 2 weeks ago?

Mr. MORGAN. Reported to me 2 weeks ago. But the fact remains that this memorandum was written in 1925. Whether the statement was made to me now, or then—

Mr. PECORA. What I am trying to find out is what knowledge anyone in the Chase Bank or the Chase Securities Co. had of those official advices by the British consul to his Government.

Mr. MORGAN. It was a matter of universal knowledge in Cuba at the time, and it was observed by our own people who went there.



Mr. PECORA. I do not think that answers the question. I have not asked you for matters of universal knowledge. I am asking you when, for the first time, so far as you have been able to ascertain in your special study of this whole situation, anyone connected with the Chase Bank or the Chase Securities Corporation learned of these official advices conveyed in November 1925 by the British consul to his Government.

Mr. MORGAN. 1925.

Mr. PECORA. Who first learned of it then, in your institution?

Mr. MORGAN. I did, Mr. Pecora.

Mr. PECORA. In 1925 you first learned of it?

Mr. MORGAN. I learned of it 2 weeks ago. I cannot see what the pertinency of this inquiry is. The fact is there, that the report was made in 1925.

Mr. PECORA. Please let us judge of the pertinency. You just answer the questions, will you? You first learned of this communication 2 weeks ago, is that right.

Mr. MORGAN. I have so testified.

Mr. PECORA. Now, to your knowledge did anybody—

Mr. MORGAN. May I—

Mr. PECORA. It is rather unsatisfactory to be interrupted in asking you a question by one of your associates conferring with you, so as to distract your attention from my question.

Mr. GEIGER. I apologize, Mr. Pecora.

Mr. MORGAN. Will you repeat the question, please?

Mr. PECORA. I had not finished it. I had just barely got started when Mr. Geiger distracted your attention from my question.

To your knowledge did anybody in either the Chase Bank or the Chase Securities Corporation learn of the sending of this communication at the time it was sent?

Mr. MORGAN. I have no information on that whatever.

Mr. PECORA. Was there any estimate as to what would be the aggregate cost, the total cost of this public-works program, at the time of the enactment of this public works law on July 15, 1925?

Mr. MORGAN. There were a great variety of estimates, depending upon the individual who made them.

Mr. PECORA. What were the official estimates that were to be verified by the Government?

Mr. MORGAN. Again there were variations.

Mr. PECORA. What were they, giving us the range?

Mr. MORGAN. One estimate that was reported at the time was \$325,000,000 for a very large and ambitious program.

Mr. PECORA. What was the final estimate as to the total cost of this entire public-works program, which included the construction of the capitol and the building of this central highway from one end of the island to the other?

Mr. MORGAN. I do not think one can answer that, Mr. Pecora, because the program was progressively diminished as time went on and economic conditions became more severe.

Mr. PECORA. But this program was first brought to the attention of the law-making body of Cuba at the time of the enactment of the public works law in July 1925.

Mr. MORGAN. Quite correct.

Mr. PECORA. Were not any final estimates arrived at by that time?

Mr. MORGAN. The contemporary estimate I have already given.

Mr. PECORA. \$325,000,000.

Mr. MORGAN. It was an estimate for the whole ambitious program. It covered a very ambitious program, which was not carried out.

Mr. PECORA. For what period of time were the special revenues that were designed to meet carrying charges on indebtedness to be incurred for the construction of this public works program?

Mr. MORGAN. Ten years.

Mr. PECORA. Was it not 5 years?

Mr. MORGAN. Ten.

Mr. PECORA. Were not these temporary revenues or special revenues provided to be collected for a period of 5 years expiring on June 30, 1930?

Mr. MORGAN. 1935.

Mr. PECORA. Will you point to any provision of the law which makes it 1935?

Mr. MORGAN (after conferring with associates). I am reading from article 20, Mr. Pecora, under the heading "Duration of the Taxes". [Reading:]

The taxes specified in nos. 14, 15, 16, 17, 18, and 19 are established as temporary and shall be in force only for a period not longer than 10 years as may be required to pay in full for the works that are carried out, after which period their collection shall cease.

Mr. PECORA. Thereafter was that law amended?

Mr. MORGAN. May I finish the clause? [Continuing reading:]

And there shall remain in force as permanent taxes only the tax on traffic and locomotion of vehicles and the tax on gasoline specified in nos. 12 and 13, in order to apply the proceeds therefrom to the conservation and improvement of the works constructed, particularly the highway.

Mr. PECORA. Thereafter was that law amended so as to extend the time for which these special revenues have been created?

Mr. MORGAN. It was.

Mr. PECORA. How much of an extension of time was provided for by the amendatory act?

Mr. MORGAN. An additional 10 years.

Mr. PECORA. After the enactment of this law of July 15, 1925, the Government embarked upon the construction of these public improvements, did it not?

Mr. MORGAN. Yes.

Mr. PECORA. What provision was made for meeting the current expenses of those public improvements at first?

Mr. MORGAN. The preliminary expenses, naturally, were small, because they were mostly studies, surveys, and so forth. They were paid out of the current revenue.

Mr. PECORA. Out of the current special revenues?

Mr. MORGAN. Yes.

Mr. PECORA. Created by the law of 1925.

Mr. MORGAN. Yes.

Mr. PECORA. Were so-called public works certificates given in payment for the work done up to the time of the extension of this \$10,000,000 credit in February 1927?

Mr. MORGAN. I never heard of any.

Mr. PECORA. Now, The Chase National Bank, in conjunction with the banking firm of Blair & Co., were the successful bidders.

Mr. MORGAN. On a competitive bid.

Mr. PECORA. On a competitive bid to finance to the extent of \$10,000,000 these public works.

Mr. MORGAN. Correct.

Mr. PECORA. And the contract entered into between the Cuban Government and The Chase National Bank and Blair & Co. was entered into, I believe you have already said, on February 19, 1927.

Mr. MORGAN. A year and 7 months after the passage of the act.

Mr. PECORA. Can you give the essential features of that agreement, briefly?

Mr. MORGAN. I want this to be accurate (after consulting papers). The agreement provides, first, that the Republic of Cuba was empowered to issue and deliver to the contractors of the central highway deferred-payment work certificates up to but not exceeding \$10,000,000.

Mr. PECORA. That was for the work already done.

Mr. MORGAN. Already under way.

Mr. PECORA. Under way; and a portion of it which has progressed up to that time.

Mr. MORGAN. Yes.

Mr. PECORA. In other words, the contractors who did that work for the Government received so-called "public-works certificates."

Mr. MORGAN. Countersigned by the Secretary of the Treasury and issued by the Secretary of Public Works.

Mr. PECORA. And certificates of that kind had been issued by the Government to those contractors to an aggregate amount of about \$10,000,000.

Mr. MORGAN. No, they had not.

Mr. PECORA. When were they issued?

Mr. MORGAN. They were issued currently, under the terms of the agreement, but the amount issued was never over \$4,000,000, I think. [After consulting an associate:] The amount issued actually under this agreement was only about \$4,250,000.

Senator COUZENS. Were they complete obligations of the Cuban Government?

Mr. MORGAN. They were; yes.

Mr. PECORA. Did the Chase National Bank and its associate in this financing, namely, Blair & Co., in substance agree under this agreement of February 19, 1927, to purchase from the contractors deferred-payment work certificates which had been issued by the Government for this construction work, to an amount not exceeding \$10,000,000, and that it would so purchase those certificates during the period commencing on July 1, 1927, and terminating on June 30, 1930?

Mr. MORGAN. If you agree, or approve, I would rather develop this in a completely orderly way, as an analysis of the agreement. I can answer the questions piecemeal if you like.

Mr. PECORA. I just want to get certain important features, and not get all the details of the agreement into the record, because I think it would be needlessly encumbering the record.

Mr. MORGAN. The answer to the question is yes.



Mr. PECORA. What rate of interest did those certificates bear?

Mr. MORGAN. 6 percent.

Mr. PECORA. How were they secured as to payment?

Mr. MORGAN. As a first lien on the revenue.

Mr. PECORA. That is, on the special revenues created by the act of 1925.

Mr. MORGAN. Correct.

Mr. PECORA. Not the ordinary revenues, but the special revenues under the act of 1925.

Mr. MORGAN. Yes.

Mr. PECORA. As a matter of fact, Mr. Morgan, had not the Chase Bank sought to enter into financing agreements with the Cuban Government as far back as 1926 with regard to this public-works program?

Mr. MORGAN. Numerous plans were explored, Mr. Pecora. I do not know whether you can call it seeking to enter into an engagement. It was in the normal course of business, inquiring what could be done.

Mr. PECORA. With a view of getting a contract to do the financing.

Mr. MORGAN. Quite true; naturally.

Mr. PECORA. Who was the American Ambassador to Cuba in 1926 and 1927?

Mr. MORGAN. Enoch Crowder.

Mr. PECORA. General Crowder?

Mr. MORGAN. General Crowder.

Mr. PECORA. Had any question been raised in 1926 and in 1927, prior to the making of this agreement of February 19, 1927, with regard to the legality or validity of this public-works program, on the ground that it involved or might involve an expenditure of moneys and the contraction of an indebtedness in violation of the provisions of the so-called "Platt amendment?"

Mr. MORGAN. I never heard of it.

Mr. PECORA. You never heard of it. Now, in your special study of this subject, in order to qualify you to testify to it before this committee, did you by any chance come across a memorandum addressed to a Mr. Tinker, of the Chase Bank, dated March 22, 1926? For your guidance, Mr. Morgan, you might look among your records for a document marked "56-4-A."

Mr. MORGAN. I have the material before me.

Mr. PECORA. Is this the first time your attention has been called to that memorandum?

Mr. MORGAN. No.

Mr. PECORA. When I asked you about it before, you apparently did not recall it.

Mr. MORGAN. Quite.

Mr. PECORA. Who was Mr. Tinker, the gentleman to whom this memorandum was specifically addressed?

Mr. MORGAN. Edward R. Tinker, president of the Chase Securities Corporation.

Mr. PECORA. He is now traveling about the country, is he not?

Mr. MORGAN. I do not know where Mr. Tinker is.

Mr. PECORA. Can any of your associates inform us about that?

Mr. ALDRICH. Mr. Pecora, Mr. Tinker is on an automobile trip, and I have done everything I can to locate him, and I have asked

his secretary to get in touch with me. I have not asked him myself, but I have asked our people to tell him to get back.

The CHAIRMAN. Is he now connected with the Chase Securities Corporation?

Mr. ALDRICH. He is not at present connected with the Chase Securities Corporation. To make the record perfectly clear, he is doing some special work for the bank in connection with the reorganization of the Wesco Theaters Co., but he is not an officer of the bank.

Mr. PECORA. I have just been advised, Mr. Aldrich, by Mr. Tuttle that word has been received from Mr. Tinker by telephone substantially to the effect that he will be here later this week.

Mr. TUTTLE. Mr. Tinker was given a release by Mr. Meehan until Friday. He will get in touch with Mr. Sandefur Friday and find out when he will be required. Mr. Meehan said he would not be required until next week.

Mr. PECORA. On the first page of this memorandum to Mr. Tinker, which bears date March 22, 1926, is it not set forth as follows [reading]:

On Sunday, March 21, about 3 o'clock in the afternoon, General Crowder approached Mrs. Graves at the Jockey Club, stating he was very anxious to see me at once. Upon learning that I was at the Country Club he immediately came there and sent for me on the golf links. He seemed to be much exercised. He stated that he had heard persistent rumors that Blair & Co. and the Chase Securities Corporation were attempting to negotiate a loan to the Cuban Government of \$100,000,000, and that, in view of the fact that their indebtedness was already \$98,000,000 and the financial and economic condition of the country was in such a deplorable state, he found it very difficult to credit the above statement. He stated that the character of his information was such, however, that he could not disregard it, and, as a matter of fact, Cespedes was supposed to present to him a proposed project today (Monday, March 22); that as he understood it, they were attempting to make a loan to the government, but under another name, and that we all know, if any difficulty arose, the United States Government would be appealed to to make Cuba comply with her engagements.

Senator GORE. What are you reading from?

Mr. PECORA. I am reading from a memorandum addressed to a Mr. Tinker, on March 22, 1926, by a Mr. Graves. Is that right, Mr. Morgan?

Mr. MORGAN. Yes.

Mr. PECORA. The initials at the end of this memorandum are the initials of a Mr. Graves.

Mr. MORGAN. Correct.

Mr. PECORA. Who was Mr. Graves at that time?

Mr. MORGAN. He was on detached service from the bank, at the Havana branch; now vice president of the Chase National Bank.

Mr. PECORA. Does this memorandum of Mr. Graves to Mr. Tinker further say:

General Crowder stated that he and I had been friends for a long time, and he thought it was only fair to tell me of the situation, because, as he saw it, it placed upon him the responsibility of making an immediate protest to the State Department in Washington. He called my attention to Article 2 of the Platt amendment and further said that he supposed these people had secured advice from American lawyers who really were insufficiently acquainted with the proper construction of the constitution of Cuba, of which the Platt amendment was a part.

Do you find that in that memorandum, Mr. Morgan?

Mr. MORGAN. I beg your pardon?

Mr. PECORA. Do you find that in the memorandum?

Mr. MORGAN. It is there; yes.

The CHAIRMAN. When was the branch of the Chase National Bank established in Habana?

Mr. MORGAN. It was a successor institution to an office of the American & Foreign Banking Corporation, which the Chase Bank took over in January 1925. [After conferring with an associate:] It was not a successor organization. It purchased the assets and assumed the liabilities of this office of the American & Foreign Banking Corporation.

Mr. PECORA. I show you, Mr. Morgan, what purports to be a photostatic reproduction of the entire memorandum from which I have read only a part which was addressed by Mr. Graves to Mr. Tinker on March 22, 1926. Will you be good enough to look at it and tell us if you can identify it as being a true and correct copy of such a memorandum sent by Mr. Graves to Mr. Tinker?

Mr. MORGAN (after examining paper). I do identify it.

Mr. PECORA. I offer it in evidence and ask that the entire memorandum be spread on the record.

The CHAIRMAN. Let it be admitted.

(The document referred to, memorandum, March 22, 1926, Graves to Tinker, was received in evidence, marked "Committee Exhibit No. 30", and the same will be found on page 2608.)

Mr. MORGAN. Mr. Pecora, I would like to call your attention at this point to the fact that this relates to an undertaking that never took place.

Mr. PECORA. It had relation to a public-works program, did it not?

Mr. MORGAN. But it never took place.

Mr. PECORA. I say, it had relation to a public-works program contemplated by the Cuban Government.

Mr. MORGAN. It was a \$100,000,000 external loan, according to this statement, and that loan was not placed.

Senator COUZENS. What was the purpose of the \$100,000,000 loan?

Mr. MORGAN. This was one of the numerous plans exploring the public-works situation in Cuba, Senator, and, of course, this \$100,000,000 was for the purpose of financing a public-works program.

Senator COUZENS. So, your answer to Mr. Pecora's question is yes, that it was in connection with public works.

Mr. MORGAN. But a project that never took place.

Senator COUZENS. I understand; but you are evading the question.

Mr. MORGAN. But he is discussing the legality of a project that never took place.

Senator COUZENS. He was not doing anything of the kind. He asked you the question whether this was in connection with public works, and you evaded the question. I want to know whether it was yes or no.

Mr. PECORA. Do you know, Mr. Morgan—

Senator COUZENS. Do you want an answer to that question?

Mr. PECORA. Yes; I do.

Mr. MORGAN. I supposed I had answered it. If I did not, I apologize to you. I meant to say yes.

Senator GORE. Do you know whether it was abandoned on account of this Crowder protest or not?



Mr. MORGAN. Senator Gore, would you repeat that? I did not hear it.

Senator GORE. Do you know whether or not it was abandoned on account of this Crowder protest?

Mr. MORGAN. No; I do not.

Mr. PECORA. Have you read this memorandum of Mr. Graves to Mr. Tinker in full at any time heretofore?

Mr. MORGAN. Yes.

Mr. PECORA. When did you read it for the first time?

Mr. MORGAN. About 3 or 4 weeks ago.

Mr. PECORA. Was that the first knowledge you had of the existence of this memorandum?

Mr. MORGAN. It was.

Mr. PECORA. Are you familiar with the last paragraph of this memorandum of Graves to Tinker, which reads as follows (reading):

It is clear that the bank should preserve cordial relations with the United States Ambassador, but, while not telling him anything that would damage our interests in Cuba, to be careful not to make any statements which he might easily learn were contrary to facts.

Are you familiar with that statement in this memorandum?

Mr. MORGAN. Yes.

Mr. PECORA. Have you, from any sources that have become available to you in any way in order to enable you to make this special study of this Cuban loan situation, learned what Mr. Graves and Mr. Tinker had in mind at that time.

Mr. MORGAN. Yes; I have.

Mr. PECORA. What did you learn about that?

Mr. MORGAN. Some 4 years before, or 3 years before, a large piece of financing was done by an important banking house in New York, in which General Crowder was deeply interested—and when I say “deeply interested” I mean precisely that—

Senator GORE. You mean in an official way?

Mr. MORGAN. Completely so, Senator; and he naturally felt, or our representatives, so I am informed, naturally felt that Ambassador Crowder believed that any further financing should go to the same house. Accordingly our representatives told him everything that had happened, but they did not say what was, in their minds, to happen in the future.

Mr. PECORA. What do you mean when you say they told him everything that had happened, but did not tell him what they had in mind regarding any future relations?

Mr. MORGAN. They were entirely prepared to report to him on matters on which we had come to an agreement.

Mr. PECORA. In other words, they were willing to tell him what was already a matter of public record?

Mr. MORGAN. No, indeed. Before it became a matter of public record. But they were willing to inform him of conclusions reached.

Mr. PECORA. Do you know what reason they might have had at that time not to take the American Ambassador into their confidence with regard to future plans for financing the Cuban Government?

Mr. MORGAN. Simply banking competition.

Mr. PECORA. What is that?

Mr. MORGAN. Banking competition.

Mr. PECORA. Were they afraid that General Crowder might break the confidence for the benefit of some competitor?

Mr. MORGAN. There was no use in embarrassing the general with confidences when he was already anxious to see that the financing should continue the line already set down.

Mr. PECORA. Let us see what further Mr. Graves said to Mr. Tinker in this memorandum that you first learned about 3 or 4 weeks ago. I am reading from the memorandum, our committee Exhibit No. 30 in evidence as of this date:

I pointed out to him that I represented neither Blair & Co. nor the Chase Securities, although both organizations were friendly with the Chase Bank; that any financial plans or discussions they may have had with the Cuban Government were matters which I was not in a position to discuss. I told him that I would assume, however, the first thing any group of bankers would be sure of was that any plans they had would not run counter to the provisions of the Cuban Constitution or the Platt amendment, and that I would presume that any such groups would not only have the best legal advice from American lawyers, but from the most outstanding legal talent in Cuba as well.

General Crowder said, you know, I believe in treating all American interests alike, to which I replied that I was well aware of this. He said that 2 or 3 years ago representatives of Blair & Co. came to Cuba in an attempt to loan the Cuban Government 40 million dollars, but they did not call on him and they had not even had the courtesy of calling on him this time either.

I made no comment on these statements, but told him that I would attempt to find out something about the situation that night, and if I were successful I would communicate with him as soon as I was in position to do so.

And then further on he says:

In view of the fact that General Crowder was to have the plans submitted to him today and he knows that Mr. Tinker and Mr. Benard had been here and that I had been with them, it would be foolish to pretend utter lack of knowledge of their interest in the public-works program, and in view of the fact that General Crowder expected to hear from me in some form it was better I should communicate with him and tell him that Mr. Benard had not returned but I would get in touch with him immediately upon his arrival in Habana, so that he might explain to General Crowder any ideas they might have on the financing plan. Failing to do so, I expected to get into communication with Mr. Tinker during the course of the day and would let him know whatever Mr. Tinker wished to communicate to him.

Do you believe that these statements embodied in this memorandum, relating, as they purport to do, to conversations between Mr. Graves and General Crowder, then the American Ambassador to Cuba, indicate a disposition on the part of Mr. Graves and the interests he represented to keep General Crowder in the dark with regard to their proposed financing plans for the Cuban Government?

Mr. MORGAN. I do not want to judge their motives, Mr. Pecora.

Mr. PECORA. I beg your pardon?

Mr. MORGAN. I do not want to judge their motives. All that I know is that this was a preliminary project. That this was entirely in the exploratory stage. That the State Department was always advised in advance of any conclusion of a program.

Mr. PECORA. Well, what do you suppose Mr. Graves had in mind then when he said to Mr. Tinker in this memorandum "it would be foolish to pretend utter lack of knowledge of their interest in the public-works program \* \* \*"? Was he counselling Mr. Tinker not to commit himself to a profession of ignorance with regard to these proposed financing plans?

Mr. MORGAN. I should assume that the memorandum means—

Mr. PECORA (interposing). That the memorandum speaks for itself?

Mr. MORGAN (continuing). That the memorandum means exactly what it says.

Mr. PECORA. And it might be construed as meaning just what I have indicated, might it not?

Mr. MORGAN. I will not go as far as that, Mr. Pecora.

Mr. PECORA. Your special study has not qualified you to go that far?

Mr. MORGAN. Certainly not.

Mr. PECORA. All right. What do you suppose, if you can tell us, Mr. Graves had in mind when he said in the concluding paragraph of this memorandum to Mr. Tinker:

It is clear that the bank should preserve cordial relations with the United States Ambassador, but while not telling him anything that would damage our interests in Cuba, to be careful not to make any statements which he might easily learn were contrary to facts.

Mr. MORGAN. I have already explained the background of that. The statement can speak for itself.

Mr. PECORA. What meaning does it convey to you with regard to what was in the minds of Mr. Graves and Mr. Tinker at this time?

Mr. MORGAN. Mr. Pecora, I cannot enter into the mentalities of those men so long ago, or even now, for that matter.

Mr. PECORA. Mr. Morgan, I understand you made a special study of this whole situation, and that in the course of that special study you came across this memorandum 3 or 4 weeks ago.

Mr. MORGAN. Quite true.

Mr. PECORA. And I presume you have read it, digested it, and fully considered its import, meaning, and significance, have you?

Mr. MORGAN. Quite true, and I have already stated it, Mr. Pecora.

Mr. PECORA. Do you think it is a violent assumption to say that from the language of this concluding paragraph of Graves' memorandum to Tinker, Graves was advising Tinker that the representatives of the Chase Bank or Blair & Co. or the Chase Securities Corporation should be careful not to disclose anything to the American Ambassador to Cuba, at that time General Crowder, that might be harmful to the interests of those financial institutions?

Mr. MORGAN. I leave the paragraph as it stands. I cannot explain the mentalities of those men, Mr. Pecora. I think that it is not proper to ask me.

Mr. PECORA. Well, on the basis of your own understanding of the meaning of the words employed by Graves in this memorandum to Tinker do you think that it is a violent assumption that what Graves was advising Tinker to do was to preserve cordial relations with the American Ambassador, but at the same time refrain from telling him anything that might be detrimental to the best interests of the bank?

Mr. MORGAN. I can only stand by the record.

Mr. PECORA. What is that?

Mr. MORGAN. I can only stand by the record.

Mr. PECORA. What record are you referring to now?

Mr. MORGAN. This.



Mr. PECORA. This memorandum?

Mr. MORGAN. Quite true.

Mr. PECORA. Well, can you not answer my question which is based upon the meaning of this last paragraph?

Mr. MORGAN. I cannot interpret this paragraph beyond what it says.

Senator COUZENS. May I ask you: When you discovered that in the files did you confer with Mr. Graves or with Mr. Tinker or with anybody else in the company?

Mr. MORGAN. No.

Mr. PECORA. You do not know what interpretation Mr. Graves or Mr. Tinker placed on this memorandum then, do you?

Mr. MORGAN. No.

The CHAIRMAN. You say that the proposal that was in the minds of Mr. Tinker or Mr. Graves never went through. When did that proposal terminate?

Mr. MORGAN. It died aborning, I think, Senator.

Mr. PECORA. As a matter of fact, Mr. Morgan, while the immediate plan of financing referred to in this memorandum might have died aborning, is it not true that subsequent to March 22, 1926, the date of this memorandum, the interests that were represented by Graves and by Tinker at that time did in February of the following year enter into an agreement to finance these deferred payment public-works certificates in the amount of 10 millions of dollars, issued under this public-works program?

Mr. MORGAN. A totally different project in conception and in kind.

Mr. PECORA. Is it not a fact that in this memorandum of Graves to Tinker the question of whether or not any part of this public-works program would constitute a violation of the Platt amendment was in General Crowder's mind, and he brought it up for discussion with Mr. Graves?

Mr. MORGAN. The document relates exclusively to the 100-million-dollar project as Ambassador Crowder had it in mind, which was an external loan, and which General Crowder gave as a horseback opinion to be contrary to the Platt amendment.

Mr. PECORA. It was his horseback opinion that it was contrary to the Platt amendment. Did your people discard that opinion from your calculations or their contemplation of the future financing that they were to do?

Mr. MORGAN. Indeed not. The future financing was scrutinized most carefully from the standpoint of the Platt amendment.

Senator GORE. This 100-million-dollar loan that was proposed and was rejected—

Mr. MORGAN. Senator Gore, will you pardon me a moment so that I may finish the answer I was giving to Mr. Pecora's question?

Senator GORE. Yes. I beg your pardon for interrupting you.

Mr. MORGAN. It was scrutinized most carefully from the standpoint of the Platt amendment. It was passed upon by competent attorneys in New York and competent attorneys in Habana. The attorney in Habana, by the way, is a judge who is a member of the World Court, and at one time was its president. The subsequent financing—not this program, which never went through, but the subsequent financing was always reported to the State Department,

and the State Department answered in its usual form that it made no objection.

Senator GORE. This 100-million-dollar proposal, which was rejected, which you say was entirely different from the one that was afterward adopted, did that include either the capitol building or this highway that was subsequently constructed?

Mr. MORGAN. The 100-million-dollar—I do not know, Senator.

Mr. PECORA. What was this 100-million-dollar program that is referred to in this memorandum?

Mr. MORGAN. That is all I know about it.

Mr. PECORA. That is all you know about it?

Mr. MORGAN. Yes.

Mr. PECORA. All you know about it is the reference to it in this memorandum?

Mr. MORGAN. Yes.

Mr. PECORA. Your special study did not prompt you when you came across this portion of the memorandum to make further inquiries as to what that 100-million-dollar program was?

Mr. MORGAN. Mr. Pecora, there were an immense number of plans that were explored all the way through this Cuban financing from beginning to end.

Mr. PECORA. That does not answer my question, Mr. Morgan. Are you an attorney?

Mr. MORGAN. Oh, no.

Mr. PECORA. I thought you were, because you answer questions the way lawyers are reputed to answer them.

Mr. MORGAN. That is a compliment that I supposed I would never be good enough to get.

Mr. PECORA. That is not a compliment, because it is said that lawyers make the worst witnesses.

Senator GORE. You do not know anything about the projects that were included in this original proposal of 100 million dollars?

Mr. MORGAN. No; I do not, Senator.

Mr. PECORA. So far as you know to the contrary, this 100-million-dollar program referred to in this memorandum was part and parcel of the program initiated under the enactment of the public works law on July 15, 1925?

Mr. MORGAN. Quite true.

Mr. PECORA. Wait a minute. [Continuing:] Which you have already said was estimated to cost a total of \$325,000,000?

Mr. MORGAN. Yes.

Mr. PECORA. So that this \$100,000,000 program referred to in the memorandum could very well have been part of that program?

Mr. MORGAN. Oh, I think it was.

Mr. PECORA. All right. And General Crowder, according to Mr. Graves' advices to Mr. Tinker, had serious and grave doubts at that time, in March 1926, as to whether or not that program would constitute a violation of the Platt amendment, did he not?

Mr. MORGAN. He appears to have; yes.

Mr. PECORA. Yes. Was that concern of General Crowder's brought to the attention of the attorneys representing the Chase Bank or the Chase Securities Corporation or Blair & Co.?

Mr. MORGAN. Unquestionably.

Mr. PECORA. Who were the attorneys?

Mr. MORGAN. Rushmore, Bisbee & Stern, in New York, and Antonio S. de Bustamante, in Havana.

Senator COUZENS. Have you a copy of those opinions here?

Mr. MORGAN. No; I have not.

Senator COUZENS. I would like to have them.

Mr. PECORA. I was just going to call for them, Senator, because we have no copies of them.

Did they submit any opinions in writing about their conclusions on this subject?

[Mr. Williams submitted opinions on the validity of the financing that actually went through.]

Mr. PECORA. I would suggest that the gentleman who made a special study of this whole program tell us what he knows about it—

Mr. WILLIAMS. I beg your pardon.

Mr. PECORA. Because I imagine that a special study, which includes a consideration of the question of the legality of these loans, ought to include attention to this particular subject.

Mr. WILLIAMS. Naturally includes all the legal details involved in it.

Mr. PECORA. Do you know anything about any such opinions, Mr. Morgan?

Mr. MORGAN. At the time of such financing as was actually put through, unquestionably.

Mr. PECORA. Have you seen any such opinions rendered by counsel to the bank or to the Securities Corporation or to Blair & Co.?

Mr. MORGAN. No; I have not.

Senator COUZENS. He did not make a very extensive study, then, did he?

Mr. PECORA. In your consideration or special study of this subject, Mr. Morgan, did it not occur to you that it was important for you to ascertain all the facts with regard to any controversy or question that might have arisen or had arisen with respect to the legality of this public works program as being in violation of the Platt amendment.

Mr. MORGAN. Mr. Pecora, it seemed to me to be obvious that it was within the meaning of the Platt amendment inasmuch as the action was approved by the lawyers and was reported to the State Department and no exception taken.

Mr. PECORA. Well, to whom did it seem obvious? To you?

Mr. MORGAN. To me.

Mr. PECORA. To you?

Mr. MORGAN. Yes.

Mr. PECORA. Just look a moment at the provisions of that Platt amendment, reading as follows:

That said Government—

meaning the Cuban Government—

shall not assume or contract any public debt to pay the interest upon which, and to make reasonable sinking-fund provision for the ultimate discharge of which the ordinary revenues of the island of Cuba, after defraying the current expenses of the Government, shall be inadequate.

I see that you have the text of this Platt amendment before you. Let me ask you with reference to this, Mr. Morgan: In view of the



fact that under the public works law of 1925 special revenues were created to meet the service charges of the indebtedness to be incurred in the construction of that public-works program, do you not think that the mere necessity for creating special revenues was in and of itself evidence that the ordinary revenues of the island were insufficient?

Mr. MORGAN. I think you are reading too much into the word "ordinary." As I read that, the ordinary revenues to my mind are the revenues from taxation. An extraordinary revenue, within the meaning of the Platt amendment, would be a loan.

Mr. PECORA. Extraordinary revenues would be a loan?

Mr. MORGAN. Quite true.

Mr. PECORA. Well then, what in the world is the value of this Platt amendment if that construction of it is correct? Will you point that out?

Mr. MORGAN. That is to say that any debt incurred by Cuba should be self-supporting; that it should be within the means of Cuba to repay.

Mr. PECORA. To repay out of the ordinary revenues, is that not what the Platt amendment says?

Mr. MORGAN. Out of taxation.

Mr. PECORA. No; it does not say out of taxation at all. Look at the text [reading]:

\* \* \* the ultimate discharge of which the ordinary revenues of the Island of Cuba after defraying the current expenses of the Government shall be inadequate.

Is that not the language of the amendment?

Mr. MORGAN. I repeat, Mr. Pecora, that the ordinary revenues do not have the restricted sense to my mind that they have to yours.

Senator GORE. Do you figure that they were going to borrow money to repay their debts?

Mr. MORGAN. Do I figure that they were going to borrow money to repay their debts? Yes.

Senator GORE. I know that is a new method of finance. I did not know that it was that old. Did the State Department make any written response to the inquiry about the eligibility of this loan?

Mr. MORGAN. The State Department wrote in the usual form that it did not take exception to the financing.

Senator GORE. Is that in the record?

Mr. MORGAN. I do not know whether you have it in.

Senator GORE. I wish you would put it in at this point.

Mr. PECORA. That was the stereotyped form used by the State Department in regard to all foreign issues which were brought out in this country.

Mr. MORGAN. Quite true.

Mr. PECORA. And the State Department has always been specific to state that by using that expression it did not mean to approve a loan at all.

Mr. MORGAN. Quite true.

Senator GORE. Mr. Pecora, I would like to get the State Department's records down here to see what Ambassador Crowder said to the State Department when the State Department had this matter up. Have you got them?

Mr. PECORA. No, Senator.

Senator GORE. I would like to have them.

The CHAIRMAN. Did you have it up with Ambassador Crowder at all? Was that subject taken up with the Ambassador? You say it was taken up with the State Department, but was it taken up with the Ambassador? Was he aware of what was going on?

Mr. MORGAN. Again let me make perfectly clear, Senator Fletcher, that the project to which Mr. Pecora is referring here, and upon which he is examining me, never went through. That when the final financing went through on February 19, 1927, Ambassador Crowder and the State Department were fully informed.

Mr. PECORA. Mr. Morgan, that was not the final financing, was it? That was only the beginning of it? This \$10,000,000 loan of February 1927 was only the beginning of a series of financing?

Mr. MORGAN. Yes; I meant when the financing was finally put through.

Mr. PECORA. Well, it was not finally put through until some years after 1927? And involved eventually an aggregate of 80 millions of dollars, did it not?

Mr. MORGAN. Yes; quite true, but—

Mr. PECORA. And all was part of this public-works program, was it not?

Mr. MORGAN. Quite true.

Mr. PECORA. And so far as you know to the contrary this \$100,000,000 program referred to in this Graves' memorandum to Tinker was also in relation to that public-works program; was it not?

Mr. MORGAN. Yes.

Senator COUZENS. When did General Crowder resign? Do you know?

Mr. MORGAN. We have got the date here somewhere, Senator.

Senator COUZENS. I would like to know it.

Mr. MORGAN. I suggest about 1928. I do not know.

Senator COUZENS. About 1928?

Mr. MORGAN. Yes.

Senator COUZENS. And who succeeded him? Do you know?

Mr. MORGAN. Ambassador Judah, of Chicago.

The CHAIRMAN. Did not Mr. Guggenheim succeed General Crowder?

Mr. MORGAN. No. Ambassador Judah, from Chicago, succeeded General Crowder.

The CHAIRMAN. How long did he serve?

Mr. MORGAN. About 2 years.

Mr. PECORA. General Crowder is now dead; is he not?

Mr. MORGAN. Yes.

Mr. PECORA. Mr. Morgan, let me recall to your attention this statement from Graves' memorandum to Tinker:

He—

Meaning General Crowder—

called my attention to article II of the Platt amendment and further said that he supposed these people—

Meaning the bankers—

had secured advice from American lawyers who really were insufficiently acquainted with the proper construction of the constitution of Cuba of which the Platt amendment was a part.

Does not that indicate to you, Mr. Morgan, that back in March 1926 General Crowder had expressed to Mr. Graves a conviction on his part, on General Crowder's part, that any financing of this public-works program would constitute a violation of the Platt amendment, and that if any American lawyers had advised American bankers to go ahead with it, that those American lawyers were insufficiently versed in the Cuban law and in the Platt amendment?

Mr. MORGAN. No; it does not.

Mr. PECORA. What does it mean to you then?

Mr. MORGAN. It means this project.

Mr. PECORA. This 100-million-dollar project?

Mr. MORGAN. Yes.

Mr. PECORA. You have already said that the 100-million-dollar project was part of the public-works program of 1925.

Mr. MORGAN. No. I am sorry. That is not what I said; or if I did say it, the context was different. I said it related to the public-works program without question.

Mr. PECORA. All right. Well, that is what I am asking you about.

Mr. MORGAN. But it was not a part of the public-works program because it never happened.

Mr. PECORA. We know it never was finally consummated, and has not been yet.

Mr. MORGAN. Well, that is what I am after.

Mr. PECORA. Because there has not been any \$325,000,000 public-works program consummated as yet, but when Mr. Tinker and Mr. Graves were considering this matter in the light of the concern which General Crowder expressed as to whether or not the financing of that program would be a violation of the Platt amendment General Crowder had in mind the entire program, did he not?

Mr. MORGAN. I cannot conceive of it.

Mr. PECORA. You cannot?

Mr. MORGAN. No.

Senator GORE. Do you know any difference in the state of facts underlying the loan that was proposed and never went through that differentiates it from the state of fact underlying the loan that did go through, that would put one outside of the Constitution and bring the other inside of the Constitution?

Mr. MORGAN. Yes, Senator Gore; I think that I can state that perfectly.

Senator GORE. Do.

Mr. MORGAN. This was an external loan to be offered to the public in the amount of 100 million dollars.

Senator GORE. When you say "this", do you mean the original one?

Mr. MORGAN. The one upon which Mr. Pecora is so industriously examining me.

Senator GORE. You mean the \$100,000,000?

Mr. MORGAN. Yes; the \$100,000,000.

Senator GORE. Yes?

Mr. MORGAN. The project that went through on February 19, 1927, was a \$10,000,000 operation, and was designed for the financing in anticipation of revenues of the actual day-to-day construction of the public-works program. It had a 4-year maturity and the amounts



involved were amply within the revenues not only anticipated but actually received.

Senator GORE. It could be serviced out of the ordinary revenues and the \$100,000,000 could not?

Mr. MORGAN. Well, my interpretation of "ordinary revenues" includes the taxation.

Senator GORE. Yes?

Mr. MORGAN. The special taxes provided for this operation.

Mr. PECORA. What did you think ordinary revenues meant, as that term is used in the Platt amendment?

Mr. MORGAN. The proceeds of taxation.

Mr. PECORA. And the amendment prohibited the contracting of any public debt of any kind where the servicing thereof could not be affected out of those ordinary revenues, did it not?

Mr. MORGAN. Quite.

Mr. PECORA. Now the servicing of this public works program was accomplished through the medium not of the ordinary revenues but special revenues created by special acts, was it not?

Mr. MORGAN. But it is impossible to conceive Mr. Pecora, under the reading of the Platt amendment, that the taxes of Cuba should remain in exactly the same position that they were in at the time that the Platt amendment was put through. I cannot conceive of its being possible that it would prohibit an increase in taxation.

Mr. PECORA. What did you understand or what do you now understand was the purpose of this Platt amendment?

Mr. MORGAN. To prevent Cuba incurring a debt which she could not properly manage.

Mr. PECORA. Which she could not properly manage out of what?

Mr. MORGAN. Out of her revenues.

Mr. PECORA. Out of what revenues?

Mr. MORGAN. Out of taxation.

Mr. PECORA. The ordinary revenues?

Mr. MORGAN. Out of taxation.

Mr. PECORA. Well, it does not say "out of taxation", does it? It says "out of ordinary revenues."

Mr. MORGAN. I would say that an extraordinary revenue, in my interpretation of the meaning of the Platt amendment, is a loan.

Mr. PECORA. Then in effect you are saying that extraordinary revenues are the same as ordinary revenues, are you not?

Mr. MORGAN. No; I am saying no such thing.

Mr. PECORA. I thought you just said that. What was his answer to the last question before that?

(Thereupon the answer was read by the reporter as above recorded, as follows:)

Mr. MORGAN. I would say that an extraordinary revenue, in my interpretation of the meaning of the Platt Amendment, is a loan.

Senator ADAMS. I should say that a loan was the most extraordinary revenue.

Mr. MORGAN. I should, too.

Mr. PECORA. Do you as a banker in the ordinary acceptance of the term "loan" regard that in the same way as you do "revenue"?

Mr. MORGAN. It is frequently.

Mr. PECORA. I say, do you as a banker in the ordinary acceptation of the term "loan" regard that in the same way that you do "revenue"?

Mr. MORGAN. In public financing it is frequently set up that way, Mr. Pecora.

These revenues were provided for by act of the Cuban Congress on July 15, 1925. The financing was arranged for on February 19, 1927.

Mr. PECORA. The initial financing?

Mr. MORGAN. The initial financing. For a year and seven months revenues had been coming in——

Mr. PECORA. Ordinary or special?

Mr. MORGAN. I would say that we would designate them adequately as ordinary revenues, earmarked——

Mr. PECORA. Even the special revenues?

Mr. MORGAN. An earmarked revenue does not indicate an extraordinary revenue.

Mr. PECORA. Are you using the terms "special revenues" and "ordinary revenues" as synonymous terms?

Mr. MORGAN. No; as an earmarked revenue——

Mr. PECORA. As distinguished from ordinary revenue?

Mr. MORGAN. Yes. That has a special advantage; first, from the standpoint of the Cuban Government, that it restricted the improvements to the field set up by taxation; and from the standpoint of the creditor it had a special advantage in having earmarked revenues which could not be diverted except for the service of those obligations, unless that was already taken care of.

Mr. PECORA. In the course of your special study of these loans, Mr. Morgan, what, if anything, did you ascertain as to the attitude or opinion of the Chase Bank or the Chase Securities Corporation or Blair & Co. with respect to making any loan to the Cuban Government at that time, in view of this statement which General Crowder had made to Mr. Graves? I am reading again from exhibit 30:

He——

meaning General Crowder——

seemed to be much exercised. He stated that he had heard persistent rumors that Blair & Co. and the Chase Securities Corporation were attempting to negotiate a loan to the Cuban Government of \$100,000,000, and that in view of the fact that their indebtedness was already \$98,000,000, and the financial and economic condition of the country was in such a deplorable state, he found it very difficult to credit the above statement.

Mr. MORGAN. I would say that the form that the financing initially took gave full effect to even the extreme interpretation of this opinion.

Mr. PECORA. Of which opinion?

Mr. MORGAN. General Crowder's opinion.

Mr. PECORA. Do you think General Crowder's opinion was an exaggerated one, that he remarked that the external indebtedness of Cuba at that time was already \$98,000,000 and that the financial and economic condition of the country was in a deplorable state?

Mr. MORGAN. I did not say that.

Mr. PECORA. I am asking you if that is what you thought?

Mr. MORGAN. I said, even the exaggerated interpretation——

Mr. PECORA. It is because you used that term "exaggerated", that I am asking you now if you think that General Crowder, when he made that observation, was exaggerating the situation.

Mr. MORGAN. I have no opinion on that at all. I would say that General Crowder was amply competent to express himself, if he is adequately reported here.

Mr. PECORA. And General Crowder's expression, if adequately and properly reported by Mr. Graves, was to the effect that the financial and economic condition of Cuba at that time was deplorable?

Mr. MORGAN. So he says.

Mr. PECORA. Do you think he spoke within the bounds of facts or not?

Mr. MORGAN. The conditions were not good; no. There was unemployment, and that was one of the main reasons for this public works program following very much the line that we are following now in the United States, Mr. Pecora.

Mr. PECORA. You think the Government today is borrowing this plan that the Machado government embarked upon in 1925?

Mr. MORGAN. I am saying that the Machado government embarked upon this public-works program in order to improve economic conditions in Cuba, providing for improved instrumentalities for commerce and trade, to provide for unemployment within the country, to relieve the economic situation generally. I say that is one of the reasons why we are embarking upon a public-works program in the United States.

Senator GORE. Did it improve the economic conditions of Cuba?

Mr. MORGAN. Yes; it did temporarily.

Mr. PECORA. For how long?

Mr. MORGAN. Until the whole world depression caught us.

Mr. PECORA. Is it not a fact that the expenditures exceeded the revenues right shortly after that?

Mr. MORGAN. Perhaps because the budget was too generously drawn. The public-works revenues exceeded anticipation right through to 1929 and 1930; and, of course, it is the public-works revenues that are relevant.

Senator GORE. You say that it improved economic conditions until the crash came?

Mr. MORGAN. It was not sufficient to avert the crash in Cuba.

Mr. PECORA. You commenced this special study about 4 weeks ago?

Mr. MORGAN. Mr. Pecora, I have been in charge, for the bank, of Cuban financing since September of 1931.

Mr. PECORA. But did you commence this special study—I am talking about your special study—about 4 weeks ago?

Mr. MORGAN. I reviewed a great many things that I was already in part familiar with, and learned some things that I had not known before.

Mr. PECORA. The term "special study" did not originate with me, but was used here by associates of yours who urged that you be put on the stand and examined on this subject. Did you commence this special study of this subject about 4 weeks ago?

Mr. MORGAN. I intensified my study of Cuba beginning 5 or 6 weeks ago.



Mr. PECORA. Five or six weeks ago. That might be regarded as a species of "cramming" for an examination?

Mr. MORGAN. Quite.

Mr. PECORA. During the cramming process did you come across a letter that was written by Mr. Batchelder, dated July 29, 1926?

Mr. MORGAN. Can you give me the number of that?

Mr. PECORA. The number is 56-7a. Did you come across that in the cramming process?

Mr. MORGAN. Yes.

Mr. PECORA. I show you what purports to be a photostatic reproduction of that letter, dated July 29, 1926. Will you kindly look at it and tell me if it is a true and correct copy of such letter written by Mr. Batchelder?

Mr. MORGAN. Yes.

Mr. PECORA. I offer it in evidence, and I would like to read it to the committee.

(The letter referred to, dated July 29, 1926, addressed "Dear Ned" and signed by Batchelder, was received in evidence as Committee's Exhibit No. 31, of October 23, 1933.)

Mr. PECORA. The letter marked "Committee's Exhibit 31", in evidence of this date, reads as follows: In handwriting across the top of the front page thereof is the inscription "Cuban Highway." Then in typewriting it is as follows:

JULY 29, 1926.

DEAR NED: I returned from Habana on Tuesday of this week, having stayed down there at least 2 weeks too long, just so that everybody up here would feel that we were leaning over backward in giving the Cubans plenty of time to decide whether or not they wanted to do any business with us at this time, and also as evidence of our desire to cooperate with them. I was sorry to hear that you had left before my return so that I could have spoken to you about this situation, not that it was of pressing importance but more as a matter of general policy.

The chances of any business being done on financing the public-works program are just as real now as they have ever been, not more nor less. At the moment the situation is about as follows: Notices have been published calling for bids to be submitted September 1, first publication having been made on July 23, which gives the contractors 40 days' notice to file their bids. Details, specifications, surveys, etc., are on file with the Public Works Department. A general clause has been inserted in the notices to the effect that the Government reserves to itself the right to accept any propositions which might be submitted on September 1 involving the financing of all or any part of the work, and the other bidders shall have no right to object. They hope this will bring forth some financing ideas from the contractors that will meet the views of the Secretary of the Treasury. I can tell you, however, that the Public Works Department feels that it will not get any acceptable propositions, and so certain are they of this opinion that I am told they are planning to start piecemeal operations with the money on hand on the so-called secondary roads which can be built locally and at less cost.

You are familiar with the President's statement that he would not make any foreign loans. I agree that the institute idea is the most practical and will enable him to save his face, but there is this difficulty in connection with this situation at this time. The general elections throughout the island will take place on November 1, all the Representatives and Senators are out campaigning in their districts, and it would be difficult to get legislative action necessary to create and authorize in a satisfactory manner the machinery for the institute plan. This is particularly so, as I am told the President would be besieged with demands from the politicians that he support them in their district in return for their voting the necessary legislation. This does not mean that the President has not sufficient prestige and power to insist upon the passing of the legislation, but rather that he does not want at this time to be

put in this position. As near as I could gather, this seems to be the crux of the difficulty at this time insofar as the indirect loan is concerned.

Looking forward there are two dates to keep in mind—September 1, when the bids are to be submitted, when we should be represented, and shortly after November 1, when it seems to me the chances would be more favorable for getting the necessary legislation. There is, without question, a great local demand that something on an intensive scale be done on the public-works program. The administration has made ambitious promises, and it will be difficult for them to fulfill them without financing. The taxes have been coming in satisfactorily, but are working an unusual hardship on the people by reason of their selections during this time of acute economical depression throughout the island plus the fact that the money is withdrawn from circulation, being loaded up in the treasury.

I am absolutely of the opinion that we must consider this business only with a guarantee direct or indirect of these public-works revenues. There is a good deal of agitation for the reduction of the transportation and sales taxes, and with the power which the President has to suppress or reduce all taxes, any bankers would be foolish not to insist upon protection against such actions.

Regarding our position, it seems to me that we are as well situated as any of our competitors. In order to have had two strings to our bow I should like to have been allowed to impress our own individuality upon the President rather than relying entirely upon intermediaries. As far as I could gather, the President is looked upon with increasing favor and his administration is considered a remarkably honest one for the Island. The Secretary of the Public Works, who has all the money he wants, is apparently out to make a record for himself by making the best trade possible for the government on all construction work and purchases. The Secretary of the Treasury presents a difficulty. He is looked upon as a thoroughly honest man, but is more theoretical than practical. However, he can be satisfied provided the President will change his idea about any loan and secure the necessary simple legislation. The Secretary of the Treasury objects to the limitations imposed by the present authorizations much in the same manner as we do.

The City Co. people are doing nothing more than to keep an eye on the business inquiring once or twice a week if there is any progress. I feel that their activities stopped about 3 weeks before we got down there; they having then reached about the same conclusions as ourselves.

The Morgan people, if they have any interest in the indirect loan, have it through the City Co., but if a direct loan does come out of all this they probably expect to get it in their own name.

During my absence I asked Strahan & Sieglie to make inquiries from time to time from the Public Works Department and through Grau as to any progress. Whatever information they do get will probably come from the Public Works Department because I am quite of the opinion that Grau is of very little real assistance.

Very sincerely yours,

C. F. BATCHELDER.

Senator COUZENS. To whom is that addressed?

Mr. PECORA. To "Ned." Who was Ned?

Mr. MORGAN. Mr. Tinker.

Mr. PECORA. The same Mr. Tinker to whom Graves addressed the memorandum of March 22, 1926?

Mr. MORGAN. Yes.

Senator GORE. What is the difference between a direct and an indirect loan?

Mr. PECORA. Perhaps Mr. Morgan can tell us that.

Mr. MORGAN. A direct or indirect loan? At this time, Senator Gore, a proposal was being explored—one of the many explored at the time—which contemplated the erection of an institute, so called, which would be owned in full by the Cuban Government. This institute should have the right to borrow and, at the same time, should make contracts in connection with the public-works program. That would be an indirect loan rather than a direct one.

Senator GORE. The Government would guarantee the loan?

Mr. MORGAN. Presumably so. I should think anyone would want to have a guarantee by the Cuban Government in that case, or else a prior lien on the taxes.

Senator GORE. The direct loan method was finally decided on?

Mr. MORGAN. Yes.

Senator COUZENS. Was that to get around the Platt amendment, that proposed organization of the institute?

Mr. MORGAN. I think not.

Mr. PECORA. This institute that you have referred to was designed to be the medium through which the financing of the public-works program was to be effected, was it not?

Mr. MORGAN. Yes.

Mr. PECORA. Whose idea was that institute, by the way?

Mr. MORGAN. I think that that idea was given birth to in several banking quarters, not simply in the Chase, but elsewhere.

Mr. PECORA. Did a Mr. Catlin have anything to do with giving birth to this idea?

Mr. MORGAN. I do not know.

Mr. PECORA. Do you know the Mr. Catlin to whom I refer?

Mr. MORGAN. Yes.

Mr. PECORA. Who is he?

Mr. MORGAN. Mr. Catlin was a lawyer who at that time was a member of the advisory committee—

Mr. PECORA. What advisory committee?

Mr. MORGAN. Of the branch in Habana.

Mr. PECORA. Of the Chase Bank branch in Habana?

Mr. MORGAN. Yes; and an officer of the Electric Bond & Share Co. of New York.

Mr. PECORA. It was while he was an officer of the Electric Bond & Share Co. in New York that he was also an officer of the Chase Bank branch?

Mr. MORGAN. No; not an officer. He was a member of the advisory committee.

Mr. PECORA. Of the bank?

Mr. MORGAN. As is usual in such cases, the advisory committee is made up of people having important business relations.

Mr. PECORA. Mr. Morgan, in your cramming for this examination did you come across many references to Mr. Catlin's activities?

Mr. MORGAN. I did.

Mr. PECORA. What is his full name?

Mr. MORGAN. Henry W. Catlin.

Senator COUZENS. Where is he now?

Mr. MORGAN. Dead.

Mr. PECORA. Mr. Morgan, in the consideration which you gave, be it much or little, if any at all, to this letter of Mr. Batchelder's to Ned, dated July 29, 1926, did it occur to you that Mr. Batchelder, in July 1926, himself expressed grave concern about the financial and economic condition of Cuba?

Mr. MORGAN. No.

Mr. PECORA. Does he not indicate some such opinion in this letter?

Senator COUZENS. Mr. Batchelder is here. Is he not the best witness?



Mr. PECORA. Apparently not; according to these gentlemen, Mr. Morgan is the best witness.

Mr. MORGAN. On the whole subject. If you choose to examine Mr. Batchelder on his own letter, he is entirely prepared to do so, I am sure.

Mr. PECORA. My recollection of the brief statement Mr. Batchelder made when I put him on the stand this morning was that he had no knowledge of the whole steps of this financing. Apparently, back in July 1926, before the initial financing was effected in February 1927, he was down in Cuba, making observations and writing the results of his observations to Mr. Tinker. At least, that is how I construe the letter which has just been offered in evidence. You have no different notion about that, have you, Mr. Morgan?

Mr. MORGAN. No.

Mr. PECORA. All right.

Mr. MORGAN. Mr. Batchelder's references to economic conditions in Cuba were strictly relative to the withholding of public works taxes if I mistake not.

Mr. PECORA. Let us see what he says about it. Let me quote from the second page of his letter:

The taxes have been coming in satisfactorily, but are working an unusual hardship on the people by reason of their collection during this time of acute economical depression throughout the island, plus the fact that the money is withdrawn from circulation and being laid up in the Treasury.

He is referring to the general economic situation of the island, isn't he?

Mr. MORGAN. No; and that is precisely what I had in mind, Mr. Pecora, when I started to answer your question, that—

Mr. PECORA (interposing). What did you have in mind?

Mr. MORGAN. When you impound a very substantial revenue in the Treasury and take it out of circulation, you naturally restrict business activity. It is one of the commonplaces of monetary theory, and that is exactly what Mr. Batchelder was talking about.

Mr. PECORA. You are not willing in these circumstances to have Mr. Batchelder's words speak for themselves, and now—

Mr. MORGAN (interposing). That is what he says.

Mr. PECORA (continuing). And now you are placing on the words your interpretation.

Mr. MORGAN. No, that is what he says.

Mr. PECORA. Let us see if that is a fact. Exactly what he says in this letter is the following:

The taxes have been coming in satisfactorily but are working an unusual hardship on the people by reason of their collection during this time of acute economical depression throughout the island, plus the fact—

Mr. MORGAN (interposing). That is just the point.

Mr. PECORA (continuing). One minute:

plus the fact that the money is withdrawn from circulation and being laid up in the treasury.

And that is the fact, that the money was withdrawn from circulation, which is in addition to the acute economical depression existing throughout the island. Isn't that what Mr. Batchelder says?

Mr. MORGAN. It seems to me that the two are joined inescapably together, and necessarily augmented the depression, the economic

situation. If you remove revenues at the rate of \$18,000,000 a year and tie them up in the treasury of the island, that is what it will do.

Senator GORE. Do you know what the circulating medium down there in Cuba is? I do not want to embark on that field of inquiry particularly, but would like to know about this matter.

Mr. MORGAN. Rather less than \$100,000,000 at the present time. I do not know what it was in those days.

Senator GORE. You say it is \$100,000,000 now?

Mr. MORGAN. Something under \$100,000,000 now.

Mr. PECORA. If I correctly understand your interpretation of this statement in Mr. Batchelder's letter, what he called the acute economical depression throughout the island was due to the fact that the money was withdrawn from circulation and was laid up in the treasury.

Mr. MORGAN. That augmented it.

Mr. PECORA. You say it augmented it?

Mr. MORGAN. Yes.

Senator COUZENS. It augmented what?

Mr. MORGAN. The depression in the island.

Mr. PECORA. There was acute depression irrespective of this element of the money collected from taxes and being withdrawn from circulation by reason of its being hoarded in the treasury.

Mr. MORGAN. I suppose you understand that I testified to that before, that economic conditions in the island were not good.

Mr. PECORA. No; I did not understand it that way.

Mr. MORGAN. Well, that is what I said.

Mr. PECORA. I understood you to tell this committee——

Mr. MORGAN (interposing). That was the reason why the President of Cuba was anxious to prosecute his public-works program.

Mr. PECORA. I understood you to tell this committee that your opinion of what Mr. Batchelder had in mind when he wrote this letter was that the acute economical depression was due to moneys collected——

Mr. MORGAN (interposing). Not exclusively.

Mr. PECORA (continuing). Was being withdrawn from circulation.

Mr. MORGAN. Not exclusively.

Mr. PECORA. You did not say that?

Mr. MORGAN. No. Not exclusively.

Mr. PECORA. Well, I wish I had known that. I would have saved my voice a little bit. Now, Mr. Morgan, who is the Mr. Strahan referred to in this letter of Mr. Batchelder?

Mr. MORGAN. A member, or possibly at that time an assistant, in the office of Rushmore, Bisbee & Stern.

Mr. PECORA. An attorney in their office?

Mr. MORGAN. An attorney; yes, sir.

Mr. PECORA. Who is Mr. Sieglie, who is referred to in this letter?

Mr. MORGAN. He was associate manager of the branch in Havana.

Mr. PECORA. What is his first name?

Mr. MORGAN. It is Mario.

Mr. PECORA. Mario?

Mr. MORGAN. Yes, sir.

Mr. PECORA. Do you know Mr. Octavio Sieglie?

Mr. MORGAN. His brother, but I do not know him.

Mr. PECORA. He is a brother of Mario?

Mr. MORGAN. Yes, sir.

Mr. PECORA. Did you ever hear of Octavio Sieglie?

Mr. MORGAN. Yes, sir.

Mr. PECORA. What was his business?

Mr. MORGAN. Revolutionary.

Mr. PECORA. It is quite an active business down there, isn't it?

[Laughter.]

Mr. MORGAN. It is one of the leading businesses.

Mr. PECORA. And because it is one of the leading businesses the Chase National Bank financed these loans, did it?

Mr. MORGAN. Not at that time.

Senator GORE. There is no depression in his business, is there?

[Laughter.]

Mr. MORGAN. Hardly.

Mr. PECORA. Mr. Chairman, it is now 10 minutes to 1. At this point I am going to resume the questioning of this witness in detail with regard to Institute Plan that has already been referred to by him. May I ask that you take a recess until 2 o'clock? My voice is a little bit hoarse and I should like to rest it.

Senator GORE. May I ask a question right now, Mr. Chairman?

The CHAIRMAN. Certainly, Senator Gore.

Senator GORE. I may not be back this afternoon, and I should like to ask the question now.

The CHAIRMAN. You may proceed, Senator Gore.

Senator GORE. Mr. Morgan, I am not familiar with the history of the vicissitudes of this loan which was the final loan. But the Chase National Bank, or Chase Securities Corporation, took over those bonds as an investment or as an underwriting, which?

Mr. MORGAN. It was divided among a group of bankers, Senator Gore, and not offered to the public.

Senator GORE. Well, didn't the group of bankers distribute it?

Mr. MORGAN. Pardon me, Senator Gore, but which one of the operations are you now referring to?

Senator GORE. Well, the \$80,000,000 loan, \$60,000,000 of which was handled by the Chase institution.

Senator COUZENS. Senator Gore, Mr. Aldrich testified to that on Thursday or Friday of last week.

Senator GORE. Well, I want to lay the foundation for something else. Did those banks to which the bonds were distributed in turn market them throughout the country or did they hold them?

Mr. MORGAN. They marketed \$40,000,000 of bonds, and they marketed \$20,000,000 of serial certificates. The financing other than that was held by the bankers, retained by them.

Senator GORE. How much has the Chase Bank now of those bonds and certificates?

Mr. MORGAN. The certificates have been entirely retired, with the exception of \$867,000, of which the Chase Bank has about one half.

Senator GORE. Are you in a position to state—

Mr. MORGAN (continuing). And we have about \$3,000,000 of the bonds, par value.

Senator GORE. Are you in a position to state whether or not the other institutions to whom the bonds were allotted still retain them or have disposed of them?



Mr. MORGAN. They disposed of them.

Senator GORE. Are the bonds in default?

Mr. MORGAN. They are not in default.

Mr. PECORA. What are they quoted at today?

Mr. MORGAN. About 30.

Senator GORE. Has Cuba a fiscal agent or disbursing agent in this country through which we could ascertain who holds those bonds now?

Mr. MORGAN. That is an almost impossible thing. I have frequently attempted to get information of that sort.

Senator GORE. As to interest that is paid to holders of the bonds, who is the fiscal agent in this country?

Mr. MORGAN. The Chase National Bank.

Senator GORE. When you make disbursements semiannually, or whenever it may be, you know to whom the interest goes, don't you?

Mr. MORGAN. No; they come in the form of coupons from all over the country, and banks ordinarily send them in.

Mr. PECORA. Could you ascertain how many banks send in coupons from all over the country?

Mr. MORGAN. But they may not send the coupons in for themselves.

Senator GORE. That is not the point. How many banks send in coupons?

Mr. MORGAN. I can find that out, I think, and will be delighted to let you know.

Senator GORE. I wish you would.

The CHAIRMAN. Do you say the bonds are in default now?

Mr. MORGAN. No; the bonds are not in default now.

The CHAIRMAN. And you paid 95 for them, did you not?

Mr. MORGAN. Yes.

The CHAIRMAN. And you sold them at how much?

Mr. MORGAN. At 98.

The CHAIRMAN. And now they are worth 30?

Mr. MORGAN. So the market appraises them. There has been a revolution.

The CHAIRMAN. Now, Mr. Morgan, I am interested a little in these figures you have given us as to expenditures. In 1927-28 the expenditures of the Cuban Government were \$82,893,000, and in 1928-29 they were \$86,765,000. In 1929-30 they were \$83,000,000 plus. Then in 1930-31 the expenditures dropped to \$67,112,000. In 1931-32 expenditures dropped to \$47,189,000. And in 1932-33 they dropped to \$45,389,000. Can you tell us why that decrease in expenditures occurred, and what caused it?

Mr. MORGAN. It was due to two causes. One was a radical reduction, or successive reductions, in the budget. And, second, because some of the current expenses were not paid.

Senator GORE. Could you break down this 16 to 18 million dollars estimate per annum to service this loan? At 6 percent it would not be anything like that amount. Was the other set aside for amortization?

Mr. MORGAN. No; for current construction in Cuba.

Senator GORE. It did not go to extinguish the debt?

Mr. MORGAN. The bonds had a lien on the revenues to the extent of 90 percent, but once the lien was satisfied the surplus could pass

into the budget or be utilized for public-works purposes. You see, we did not finance anything like the total cost of the work.

Senator GORE. I see. Then a part of the construction cost was paid out of current revenue.

Mr. MORGAN. The whole thing was designed as far as possible on a pay-as-you-go basis.

Senator GORE. Do you know what the whole budget was or what the two projects cost over all?

Mr. MORGAN. I have got an elaborate calculation on that here which I will be glad to tell you about.

Senator GORE. This \$83,000,000 loan did not take care of the entire transaction, then?

Mr. MORGAN. No. There was a third lien of \$20,000,000 and—

Senator GORE (interposing). What was that?

Mr. MORGAN. A third lien of \$20,000,000, with which we have nothing whatever to do.

Senator GORE. I did not get that answer.

Mr. MORGAN. There was a third lien of \$20,000,000 which the Chase Bank has had nothing whatever to do with. Based on official statements and on our own calculations the total income of the public-works fund, including loan proceeds, during the fiscal years 1925-26 to 1932-33, inclusive, amounted to approximately \$236,000,000.

Senator GORE. Now, that is revenue from taxes and proceeds from loans?

Mr. MORGAN. Yes; excluding short-term advances the total income aggregated approximately \$227,000,000, of which \$80,000,000, or 35 percent, represents financing done by the Chase group.

Senator GORE. I had not understood that before. That is all, Mr. Chairman.

The CHAIRMAN. The subcommittee will now take a recess until 2 p.m.

(Thereupon, at 1 p.m. Monday, Oct. 23, 1933, the subcommittee recessed until 2 p.m. the same day.)

#### AFTERNOON SESSION

Upon the expiration of the noon recess the hearing was resumed at 2 p.m.

The CHAIRMAN. The committee will come to order. Mr. Pecora, may we interrupt long enough to put in the record a letter just received from Mr. Whitney, president of the New York Stock Exchange, and my reply thereto. I do not think it is necessary to read those. It refers to revision of questionnaire and the course the committee decided to pursue about that.

(The letter from Mr. Whitney and reply of Senator Fletcher thereto are as follows:)

NEW YORK STOCK EXCHANGE,  
October 21, 1933.

To the Hon. DUNCAN U. FLETCHER.

*Chairman Committee on Banking and Currency,  
United States Senate, Washington, D.C.*

MY DEAR SENATOR FLETCHER: I have just received a copy of the transcript of the hearing before the committee yesterday and have noted your question as to whether the exchange would submit a modified questionnaire to its mem-

bers "with the statement that they are not ordered or directed to answer the questionnaire but that the exchange recommend that they answer them if feasible and leave it to the discretion of the members as to whether they answer the questionnaire or not, without imposing any penalties upon them in case they did not."

This, of course, is the first time that such a suggestion has been made to the exchange. When Mr. Pecora submitted his original questionnaire, he asked that the exchange obtain the information from its members. This, in effect, would have compelled them to answer or run the risk of being disciplined by the governing committee of the exchange. For the reasons stated in my letter of October 16, 1933, to Mr. Pecora, we did not feel that we could comply with his request. Your suggestion presents an entirely different question.

I am advised there was a meeting yesterday afternoon with representative members of the exchange to consider further modifications of the questionnaire with a view to reducing to a minimum both the cost and the burden of work which would be imposed upon the members in answering it and also with a view to clarifying certain of the questions so as to eliminate the possibility of duplication or other errors which would have tended to produce inaccurate answers. As soon as these modifications have been agreed upon we shall be glad, if it is your wish, to transmit the modified questionnaire to the members of the exchange with the recommendation that they, in order to facilitate the pending investigation, send their replies to the exchange. The replies so received will be tabulated and the information furnished to the committee. If any members of the exchange feel that they cannot or should not furnish the information, we shall inform you of their position so that the committee may take such action in regard to them as it deems necessary.

Faithfully yours,

RICHARD WHITNEY, *President.*

OCTOBER 23, 1933.

HON. RICHARD WHITNEY,

*President Stock Exchange, New York, N.Y.*

MY DEAR MR. WHITNEY: Referring to yours of the 21st. just received.

I am advised that the form of questionnaire has been agreed upon, in a conference with Mr. Pecora's assistants and representatives of members of the stock exchange.

When my question was propounded, which you mention, Mr. Redmond replied there was no one here authorized to speak for the exchange.

The subcommittee, in executive session, decided that day that the questionnaire be taken up, as was done, and also that when revised and perfected it be submitted directly to the members of the stock exchange.

Very truly yours,

DUNCAN U. FLETCHER, *Chairman.*

MR. PECORA. Mr. Chairman, with respect to the letter that has just been put into the record and which was addressed to you by Mr. Whitney as president of the New York Stock Exchange under date of October 21, 1933, may I make this very brief statement: In this letter Mr. Whitney states as follows [reading]:

When Mr. Pecora submitted his original questionnaire, he asked that the exchange obtain the information from its members. This, in effect, would have compelled them to answer or run the risk of being disciplined by the governing committee of the exchange. For the reasons stated in my letter of October 16, 1933, to Mr. Pecora, we did not feel that we could comply with his request.

I want to say with respect to that statement, Mr. Chairman, that at no time did I say to Mr. Whitney or any other representative of the New York Stock Exchange, in words or substance, that I wanted, or the committee wanted, the governing authorities of the exchange to compel their members to answer the questionnaire, and there was no suggestion at any time made in the conferences that were held with Mr. Whitney and Mr. Redmond by my representatives, as the results of those conferences were reported to me, that the request



I made to Mr. Whitney to circulate the questionnaire among his members would be tantamount to compelling the members to answer whether they wished to do so or not.

In my letter to Mr. Whitney forwarding the questionnaire originally there is not a single word or phrase or sentence that could be construed as any understanding on my part or any request on my part or statement on my part that I wanted the exchange to compel its members to answer the questionnaire.

### TESTIMONY RESUMED OF SHEPARD MORGAN

Mr. PECORA. Now, Mr. Morgan, referring again to the memorandum of Mr. Graves to Mr. Tinker, dated March 22, 1926, which is known as "Committee's Exhibit 30" in evidence here, will you tell me what connection Mr. Graves then had with either the Chase National Bank, the Chase Securities Corporation, or Blair & Co.?

Mr. MORGAN. He was vice president of the Chase National Bank on detached service in Cuba at the branch.

Mr. PECORA. Now, let me call your attention to this statement of Mr. Graves in his memorandum to Mr. Tinker, referring to his conversation with General Crowder:

I pointed out to him—  
meaning General Crowder—

that I represented neither Blair & Co. nor the Chase Securities, although both organizations were friendly with the Chase Bank; that any financial plans or discussions they may have had with the Cuban Government were matters which I was not in a position to discuss.

Do you think that that is a comprehensive statement of the fact?

Mr. MORGAN. I should say so, Mr. Pecora.

Mr. PECORA. Of Mr. Graves' knowledge that he professed to have in his conversation with General Crowder?

Mr. MORGAN. While the negotiations were being conducted by the Securities Corporation and he was there as a representative of the bank in the branch at Habana, I should say that was a fair and comprehensive statement.

Mr. PECORA. The Chase Securities Corporation and the Chase National Bank were owned and controlled by identically the same interests, were they not?

Mr. MORGAN. Quite true.

Mr. PECORA. And don't you think this statement was a bit disingenuous?

Mr. MORGAN. They were different corporations.

Mr. PECORA. We know that. Don't you think this statement to General Crowder by Mr. Graves was a bit disingenuous?

Mr. MORGAN. It seems to me it asserted the fact.

Mr. PECORA. It technically asserted the fact, but wasn't he as an officer of the Chase National Bank in its branch at Havana, Cuba, in a position to know fully all that was going on with regard to these proposed financing plans in behalf of the Chase Securities Corporation?

Mr. MORGAN. I think it entirely probable that he was not fully informed.

Mr. PECORA. Why did he then undertake to communicate on that very subject with Mr. Tinker, if he was not fully informed? Why wasn't that left to somebody who was more fully informed?

Mr. MORGAN. To tell Mr. Tinker what he was informed of.

Mr. PECORA. Was Mr. Tinker an officer of the Chase National Bank then?

Mr. MORGAN. No; he was an officer at that time of the Chase Securities Corporation.

Mr. PECORA. Was he also an officer of the Chase National Bank?

Mr. MORGAN. I think not at that time.

Mr. PECORA. What officer of the Chase Securities Corporation at that time in Cuba had charge of the negotiations for this proposed financing with the Cuban Government?

Mr. MORGAN. Mr. Tinker either was there or had recently been there at that time himself.

Mr. PECORA. What officer of the Chase Securities Corporation was there on March 22, 1926, the date of this memorandum that Mr. Graves gave to him?

Mr. MORGAN. Probably no one, Mr. Pecora.

Mr. PECORA. Well, who was on the ground looking after the interests of the Chase Securities Corporation with respect to this financing?

Mr. MORGAN. Mr. Graves was there looking after the interests of the Chase National Bank.

Mr. PECORA. And does that mean in substance that he was also there in position to look after the interests of the Chase Securities Corporation with regard to the same matter?

Mr. MORGAN. Not within his official obligation.

Mr. PECORA. Was he in a position to do that?

Mr. MORGAN. To give advice or to represent the Chase Securities Corporation?

Mr. PECORA. To look after the interests of it in the absence of any regular representative?

Mr. MORGAN. He could not sign for the Chase Securities Corporation nor carry on a definitive negotiation for the Chase Securities Corporation.

Mr. PECORA. In order for him to look after their interests was it necessary for him to have authority to sign anything? There was nothing to sign then, was there?

Mr. MORGAN. To carry on a definite negotiation, Mr. Pecora, it seems to me you have got to have your own man, haven't you?

Mr. PECORA. Then at this time the Chase Securities Corporation had nobody in Cuba looking after its interests with regard to this proposed financing?

Mr. MORGAN. I think that is correct.

Mr. PECORA. Well, do you think that Mr. Graves was pinch-hitting then for the Chase Securities Corporation in conferring with General Crowder about the interests of the Chase Securities?

Mr. MORGAN. He was reporting a conversation to Mr. Tinker.

Mr. PECORA. After Mr. Tinker received this communication from Mr. Graves do you know whether Mr. Tinker caused an immediate

representative of the Chase Securities company to go down to Cuba and continue the discussions with General Crowder on that subject?

Mr. MORGAN. No, I do not.

Mr. PECORA. What?

Mr. MORGAN. I do not.

Mr. PECORA. Your special study has not brought you any knowledge of any such thing, has it?

Mr. MORGAN. You probably can find the occasion of the next visit. I think you have it in the——

Mr. PECORA (interposing). No—will you confine yourself to the question before you?

Mr. MORGAN. Which was whether there was any representative of the Chase Securities Corporation at that time. No.

Mr. PECORA. I asked you, the Chase Securities Corporation then sent a special representative down there to resume these conversations with General Crowder on the subject of this financing. That is what I asked.

Mr. MORGAN. There was no one sent down immediately, I understand. As the record has amply shown and the testimony this morning, others went down later.

Mr. PECORA. What, if anything, was done by the Chase Securities Corporation when Mr. Graves called the attention of its president, Mr. Tinker, to the concern of General Crowder with respect to the illegality of this public works indebtedness?

Mr. MORGAN. Doesn't the record on that speak for itself?

Mr. PECORA. No; I am asking you.

Mr. MORGAN. All right.

Mr. PECORA. You are familiar with the record.

Mr. MORGAN. I would say that the record on that speaks for itself.

Mr. PECORA. What record are you now referring to which so speaks?

Mr. MORGAN. The record that on February 19, 1927, a totally different piece of financing was put through.

Mr. PECORA. That does not answer my question, Mr. Morgan, please. I did not ask you what financing eventually was done; I asked you what, if anything, Mr. Tinker, the president of the Chase Securities Corporation, did after Mr. Graves called to his attention in March 1926 General Crowder's concern over the legality of this public-works program.

Mr. MORGAN. Nothing appears in the record to my knowledge on that subject.

Mr. PECORA. Does that mean that nothing was done until February 19, 1927?

Mr. MORGAN. No; because you have ample record in the meantime of other operations undertaken.

Mr. PECORA. Well, now, you have those records, too, and you have made a special study of them for this examination, have you not?

Mr. MORGAN. Precisely.

Mr. PECORA. What was the thing that was first done by Mr. Tinker following the receipt by him of Graves' memorandum of March 22, 1926?

Mr. MORGAN. A continued study was made, Mr. Pecora.



Mr. PECORA. By whom and when?

Mr. MORGAN. By the officers of the Chase Securities Corporation, by their lawyers, by their representatives, of conditions which ultimately led to the financing of February 19, 1927.

Mr. PECORA. Who were the persons that made that continuous study in behalf of the Chase Securities Corporation?

Mr. MORGAN. You have in your files a letter dated May 6, 1928.

Mr. PECORA. Now, you are talking about 1928. I thought this financing was commenced in February 1927.

Mr. MORGAN. Excuse me. The letter may be misdated. Mr. Barr, who was the vice president of the Chase National Bank at that time in charge, Mr. Batchelder, Mr. Freeman, various other officers and representatives of the Chase Bank and the Chase Securities Corporation, went to Habana for a discussion of this program. Mr. Callahan, of the Chase Securities Corporation, also Mr. Williams, of Rushmore, Bisbee & Stern, Mr. Mudge, of Rushmore, Bisbee & Stern, I believe.

Mr. PECORA. Mr. Barr, whose name you mentioned, is now dead, is he not?

Mr. MORGAN. Yes.

Mr. PECORA. Mr. Callahan, whose name you mentioned, is now dead?

Mr. MORGAN. Yes.

Mr. PECORA. The other gentlemen whose names you mentioned—are Mr. Freeman, Mr. Batchelder, and Mr. Williams of the law firm of Rushmore, Bisbee & Stern?

Mr. MORGAN. Yes. And Mr. Mudge of Rushmore, Bisbee & Stern.

Mr. PECORA. Now let us take the first of those: What did Mr. Barr do so far as your personal study indicates?

Mr. MORGAN. I will have to answer that in a very general way. He investigated conditions to see what could be done.

Mr. PECORA. Have you any memoranda or records that show you that he did any such thing?

Mr. MORGAN. There exists so far as I know no memorandum from Mr. Barr showing the results of his study.

Mr. PECORA. Well, how do you know that he did anything at all?

Mr. MORGAN. I know he went there.

Mr. PECORA. How do you know that he did anything at all?

Mr. MORGAN. Counsel advises me that he did.

Mr. PECORA. When did counsel so advise you?

Mr. MORGAN. Then and now.

Mr. PECORA. What do you mean by then; back in 1926?

Mr. MORGAN. I was in Germany at that time, Mr. Pecora.

Mr. PECORA. Did they call you up in Germany and tell you that Barr had gone to Cuba in 1926?

Mr. MORGAN. That was several weeks ago, at the time my study of this started.

Mr. PECORA. And counsel advised you now, you said?

Mr. MORGAN. Yes.

Mr. PECORA. Then and now?

Mr. MORGAN. Yes.

Mr. PECORA. When you say "now" do you mean at the moment that I asked you the question or right thereafter?

Mr. MORGAN. At this moment.

Mr. PECORA. And what did counsel either then or now advise you Mr. Barr had done outside of having gone to Cuba?

Mr. MORGAN. Only in general terms to study the situation.

Mr. PECORA. Well, what? What did they advise you he had done?

Mr. MORGAN. Studied the situation to find out what could be done. These were preliminary explorations. They resulted in nothing until February 19, 1927.

Mr. PECORA. But they did result in this financing eventually, did they not? Did they not, these preliminary explorations, as you call them? They did result in this financing that was undertaken by the Chase National Bank eventually?

Senator COUZENS. The witness answered yes to that.

Mr. MORGAN. Yes.

Mr. PECORA. Is that the answer?

Mr. MORGAN. Yes.

Mr. PECORA. Now, can you tell this committee more specifically than you have what Mr. Barr did in those preliminary explorations that led to this financing?

Mr. MORGAN. I cannot.

Mr. PECORA. All right. Now, do you know what Mr. Freeman did in that respect?

Mr. MORGAN. The same general response, Mr. Pecora.

Mr. PECORA. Do you know what anybody specifically did in those preliminary explorations?

Mr. MORGAN. Mr. Pecora, various groups worked on this business, not simply our own bank, but other groups of bankers, during April or the early part of May of 1926. It then seemed that some form of agreement satisfactory to the Government had developed with another—

Mr. PECORA (interposing). Are you reading that answer from something before you?

Mr. MORGAN. Yes.

Mr. PECORA. What is the document from which you are reading this answer, which, by the way, does not answer the question I have put to you?

Mr. MORGAN. No. You have asked me for detailed information about this period.

Mr. PECORA. I have asked you what you know or what you learned.

Mr. MORGAN. Yes.

Mr. PECORA. Now, what are you reading that answer from?

Mr. MORGAN. I am reading this from a document which I have jointly prepared with my associates in order to refresh my memory at this stage.

Mr. PECORA. A document that you prepared with others?

Mr. MORGAN. Yes.

Mr. PECORA. I thought you said you knew nothing except what others told you concerning the activities of these representatives of the Chase Securities Corporation in these preliminary explorations?

Mr. MORGAN. From the record.

Mr. PECORA. What record did you consult that enabled you to join in the preparation of that statement from which you are reading?

Mr. MORGAN. Many of the photostats which you now have in your possession and from the other documents in the files of the Chase Bank.

Mr. PECORA. I will call on you now to produce any record to show what part Mr. Barr had or took in this preliminary exploration, as you call it.

Mr. MORGAN. I have not testified to Mr. Barr at this point. I have given you all I know about Mr. Barr.

Mr. PECORA. Have you given us practically all you know about what Mr. Freeman did?

Mr. MORGAN. Yes.

Mr. PECORA. And what Mr. Batchelder did?

Mr. MORGAN. No.

Mr. PECORA. What did Mr. Batchelder do to your knowledge or so far as you have been informed by anybody?

Mr. MORGAN. That is what I was engaged in producing. (Referring to memorandum.) It was contemplated, as was developed this morning, in the middle of 1926, that expenditures aggregating 125 to 130 million dollars upon the works provided for by the Public Works law during a 4-year period would be involved. The Chase Securities Corporation sent Mr. Batchelder and Mr. A. M. Williams and Mr. Strahan of Messrs. Rushmore, Bisbee & Stern to work upon the business. Mr. Batchelder and Mr. Williams talked with the Secretary of the Treasury and learned that no concrete plan had been developed by the Government, but the Government would be interested to have a group arrange a credit of up to \$30,000,000.

By the end of June, that is to say 1926, the Chase Securities Corporation concluded that a satisfactory financing plan could not be devised under the existing law, and Mr. Freeman reported that the Government ought to return to the institute plan which had been discussed earlier in the year.

Mr. Batchelder reported that on July 23 bids had been called for to be filed on September 1. By decree of the President no. 1338 of August 23 this date was extended to September 20, and the date was later extended to September 27.

Our best information is that on September 27 Messrs. Warren Brothers Co. of Cambridge, Mass., George A. Fuller Co. of Jersey City, N.J., Mellon-Stewart & Co. of Pittsburgh, Pa., and Messrs. Dwight Robinson & Co. of New York, working in conjunction with the National City Bank of New York, bid for the highway work and financing to be handled through a private corporation to be known as the Institute of Public Works for the Republic of Cuba.

The Foundation Co. of New York, together with two local contractors and Ulen & Co. of New York, submitted a bid for highway construction, and Messrs. James Stewart & Co. submitted a bid for all construction work. No definite action was taken on these bids, and on October 17, Dr. Enrique Hernandez y Cartaya of the Treasury, reported that the proposals were not satisfactory and advanced a plan which he had developed.

Would you like me to outline the plan that Cartaya had in mind at that time?

Mr. PECORA. Did you read that answer from some prepared statement before you?

Mr. MORGAN. Yes.



Mr. PECORA. And that is the document you say you prepared jointly with others?

Mr. MORGAN. Yes.

Mr. PECORA. Who were the others that participated with you in the preparation of that statement?

Mr. MORGAN. Mr. Geiger and Mr. Williams.

Mr. PECORA. Is the institute that you have just referred to, in reading from that prepared statement, the same institute that you mentioned just prior to the taking of recess this morning?

Mr. MORGAN. Not the same one, Mr. Pecora, because Mr. Freeman himself, quite independently of this group that was working in conjunction with the National City Bank, had the idea of the Institute of Public Works.

Mr. PECORA. What was the institute to which you referred during the forenoon session?

Mr. MORGAN. That was Mr. Freeman's idea.

Mr. PECORA. What was it?

Mr. MORGAN. It was an institute, as I then testified, which would be owned wholly by the Republic of Cuba. It would have as its board of directors leading Cuban citizens, together with certain Americans. This institute would be qualified to issue bonds on the security of the public-works revenues. At the same time, it would be the agency through which contracts would be let for the prosecution of the public-works program.

Mr. PECORA. Do you know what the purpose was of creating that institute?

Mr. MORGAN. It was on the parallel of similar successful institutions in Italy, Brazil, and this country.

Mr. PECORA. You are telling us what it was similar to, not what its purpose was. I want to know what its purpose was.

Mr. MORGAN. To issue bonds for the prosecution of the highway and the other public improvements, and to handle the contracts.

Mr. PECORA. To issue bonds in behalf of whom?

Mr. MORGAN. For the public works program.

Mr. PECORA. In behalf of whom?

Mr. MORGAN. On its own faith and credit, supported by the revenue—

Mr. PECORA. And the bonds to be paid by whom?

Mr. MORGAN. Out of the proceeds of the revenue.

Mr. PECORA. By whom?

Mr. MORGAN. You mean physically by whom? By the trustee.

Mr. PECORA. No. I mean whose responsibility lay back of the bonds to be issued.

Mr. MORGAN. The institute.

Mr. PECORA. How about the Cuban Government's responsibility?

Mr. MORGAN. I am not informed whether the Cuban Government was to guarantee the bonds or not, but the taxes which would otherwise have inured to the Cuban Government were, under this plan, to be diverted to the institute.

Mr. PECORA. Do you know what occasion there was for the creation of such an institute to enable the Cuban Government to go ahead with its public works program?

Mr. MORGAN. The occasion, I think, was General Machado's insistence upon a pay-as-you-go policy.

Mr. PECORA. Upon what?

Mr. MORGAN. A pay-as-you-go policy.

Mr. PECORA. And could not the Cuban Government undertake such a policy without the intervention of such an institute?

Mr. MORGAN. Mr. Williams was on the spot at that time. Do you want him to explain?

Mr. PECORA. I know, but you put yourself on the spot this morning with regard to this examination after you had made a special study.

Mr. MORGAN. Quite true.

Mr. PECORA. Was your special study exclusive of this particular feature of the question?

Mr. MORGAN. No; certainly not.

Mr. PECORA. Do you feel that you cannot answer this question about the purpose for the creation of this institute?

Mr. MORGAN. No.

Mr. PECORA. Then go ahead and answer the question.

Mr. MORGAN. All right. Repeat the question.

Senator ADAMS. May I ask a question? As I understand, this institute was a private corporation, to be governed by a board of directors of Cuban citizens.

Mr. MORGAN. Quite true.

Senator ADAMS. At the same time, a private corporation was to issue its bonds, these bonds to be secured by the pledge of Cuban revenues.

Mr. MORGAN. Yes.

Senator ADAMS. And this private corporation was to construct public works in Cuba.

Mr. MORGAN. But, Senator, the corporation was owned by the Cuban Government, in the same way the Farm Board here was owned by the United States, and issued its own bonds.

Senator ADAMS. That leads right back to the question Mr. Pecora has been asking you.

Mr. PECORA. Then it was not a private corporation?

Mr. MORGAN. I did not say it was a private corporation.

Mr. PECORA. You just said so, in answer to Senator Adam's question.

Mr. MORGAN. I am sorry; I misspoke if I said it was a private corporation. I had testified this morning and this afternoon both that it was a corporation to be owned by the Cuban Government.

Mr. PECORA. What occasion was there, Mr. Morgan, for the creation of this institute in order to enable the Cuban Government to carry out the public-works program that was authorized by the enactment of July 15, 1925, and for which special revenues were authorized by that law?

Mr. MORGAN. I can give you the answer as a banker. Whether it is an answer as a lawyer, I will leave it to you to decide.

Mr. PECORA. I want the answer, whatever it be.

Senator ADAMS. It ought to be the same in either event, ought it not?

Mr. PECORA. I should think so. The purpose was the same, whether you are going to answer from the standpoint of the banker or the standpoint of the lawyer.

Mr. MORGAN. Very good. We agree. The Secretary of Public Works, Carlos Miguel de Cespedes, was very ambitious to carry on this public-works program at maximum speed. This involved an expenditure annually in an amount greater than the revenues of the public-works taxes.

Mr. PECORA. What revenues do you now mean?

Mr. MORGAN. \$18,000,000 a year.

Mr. PECORA. Those are the special revenues authorized by the public-works law of 1925.

Mr. MORGAN. Just so. Those revenues, by the way, were merely segregated revenues. They were all, for the most part, in existence prior to the law of 1925.

Mr. PECORA. Then why were they referred to as special revenues created by the law of 1925?

Mr. MORGAN. Earmarked for the purpose. I described them this morning as earmarked for this purpose.

Mr. PECORA. Were they kept apart as a fund?

Mr. MORGAN. Yes.

Mr. PECORA. Are you sure of that?

Mr. MORGAN. On the books of the Cuban Government, yes.

Mr. PECORA. Were they actually segregated and kept apart, or were they commingled with the National funds generally?

Mr. MORGAN. You are asking me something that lies in the archives of the Cuban Government. So far as our records go, they were paid to us punctually when due.

Mr. PECORA. Go ahead and continue your answer. You are trying to tell us what the reason was for the creation of this institute in order to enable the Cuban Government to carry out this public-works program under the special act of 1925.

Mr. MORGAN. I have indicated the ambitious program of the secretary of public works.

Mr. PECORA. Yes; to spend \$325,000,000.

Mr. MORGAN. Not at that time. It had already become somewhat more delimited.

Mr. PECORA. All right.

Mr. MORGAN. Obviously that program could not be carried through to that ambitious scale without financing, as promptly as he desired, and it was in order to meet that desire to prosecute more rapidly the public-works program that the bankers devised this method. Does that answer your question?

The CHAIRMAN. Who furnished the capital for it? Didn't it have some capital?

Mr. MORGAN. It never went through, Senator. This is a purely exploratory program, which never went through.

The CHAIRMAN. The institute never was established?

Mr. MORGAN. It never went through. It is one of the numerous ideas that was proposed from time to time for dealing with the public-works program.

The CHAIRMAN. Who was to furnish the capital in case it did go through?

Mr. MORGAN. The Government of Cuba.

Mr. PECORA. What, if anything, was done in behalf of or at the instance of the Chase Securities Corporation, or any of its associates on this plan to advance the public-works program, toward meeting



the concern that had been expressed in the early part of 1926 by General Crowder, the American Ambassador to Cuba, with respect to the validity of this public-works program, under the Platt amendment and the Cuban Constitution?

Mr. MORGAN. The program to which you referred, and to which Ambassador Crowder referred, was abandoned. It seems to me that is pretty explicit.

Mr. PECORA. What was done with respect to meeting General Crowder's concern as to whether or not any indebtedness could be contracted for this public-works program without violating the Platt amendment?

Senator COUZENS. I think the witness testified that they got opinions from both New York and Cuban lawyers.

Mr. MORGAN. What actually was done——

Mr. PECORA. Before that——

Mr. MORGAN. May I just make a record of this, so that I think this thing can go to sleep?

Mr. PECORA. I do not know whether it will go to sleep, Mr. Morgan, after you are through telling us about it.

Mr. MORGAN. This is a matter of record.

Mr. PECORA. I might go to sleep.

Mr. MORGAN. The credit of February, 1927——

Mr. PECORA. February 19.

Mr. MORGAN. The credit of February 19, 1927, was reported in full to Ambassador Crowder and to the State Department. The State Department consulted Ambassador Crowder, and ultimately gave to the Chase National Bank a letter stating that it took no exception to the operation.

Mr. PECORA. What documents can you produce in substantiation of that?

Senator ADAMS. That was the \$10,000,000 loan that you were referring to?

Mr. MORGAN. Yes, sir.

Senator ADAMS. That is figured in American dollars?

Mr. MORGAN. American dollars. It is identical. Cuba uses American currency.

I read a copy of a letter dated February 15, 1927, addressed to the State Department, State Department Building, Washington, D.C., attention of Dr. Young.

DEAR SIR: On December 6, 1926, I submitted to you on behalf of my client a copy of the proposal made to the Cuban Government in connection with the financing of the construction of the central highway. At that time I was reminded that inasmuch as this matter might involve a public offering, it would be advisable to give your department further notice before the definite agreement was concluded in case the preliminary proposal was accepted by the Cuban Government.

I am therefore enclosing herewith, on behalf of my client, the Chase National Bank of the City of New York, a copy of the proposed definitive agreement (revise of Feb. 9, 1927) which has been negotiated with representatives of the Cuban Government to give effect to the preliminary proposal, a copy of which is already on file with you. It is expected that the definitive agreement, in substantially the form submitted herewith, will be approved by the Cuban Government for execution by the end of this week, and I shall therefore appreciate if you will advise my client, at their principal office, No. 57 Broadway, New York City, as to whether your department sees any objection to the making of the credit arrangement outlined in the proposed contract.

Very truly yours,

A. E. MUDGE.

Mr. PECORA. He is a member of the firm of Rushmore, Bisbee & Stern, attorneys for the bank?

Mr. MORGAN. Yes.

I now read from a copy of a letter dated February 21, 1927, from the Department of State, Washington, D.C., addressed to the Chase National Bank, 57 Broadway, New York:

SIRS: The Department is in receipt of a letter from Messrs. Rushmore, Bisbee & Stern, dated February 15, 1927, stating that your firm is interested in the proposed loan to the Cuban Government of a sum not to exceed \$10,000,000 for the purpose of facilitating the carrying out of the construction of the proposed central highway of Cuba.

I beg to state that in the light of the information before it the State Department offers no objection to this financing.

You, of course, appreciate that, as pointed out in the Department's announcement of March 3, 1922, the Department of State does not pass upon the merits of foreign loans as business propositions, nor assume any responsibility in connection with such transactions. Also that no reference to the attitude of this Government should be made in any prospectus or otherwise.

I am, sirs,

Your obedient servant,  
For the Secretary of State:

LELAND HARRISON,  
*Assistant Secretary.*

Mr. PECORA. Will you let me look at those two documents, please? [Mr. Morgan hands papers to Mr. Pecora.]

Mr. PECORA (after examining papers). Now, Mr. Morgan, I note that in the letter of Mr. Mudge to the State Department dated February 15, 1927, reference is made by Mr. Mudge to the fact that on December 6, 1926, he had submitted to the State Department, on behalf of the Chase National Bank, a copy of the proposal made to the Cuban Government in connection with the financing of the construction of the central highway.

Mr. MORGAN. That also——

Mr. PECORA. Have you got that letter?

Mr. MORGAN. That also was supplied to General Crowder.

Mr. PECORA. Have you got a copy of it?

Mr. WILLIAMS. Mr. Pecora, Mr. Mudge stopped at Washington on his return from Habana and delivered that proposal personally to the representative in the State Department.

Mr. PECORA. Then there was no correspondence on the subject?

Mr. WILLIAMS. No. There was no letter transmitting the proposal. He delivered it in person.

Mr. PECORA. Have you a copy of the proposal that he delivered to the State Department at that time in person?

Mr. MORGAN. I have the text of it here, Mr. Pecora. [Handing paper to Mr. Pecora.]

Mr. PECORA (after examining paper). Mr. Morgan, I have very hastily glanced through the document that you have just handed to me, and which purports to be the proposal that was submitted to the State Department by Mr. Mudge on December 6, 1926. I see in it no reference whatsoever to any consideration of the question as to whether or not this public-works program would be in violation of the Platt amendment and the Cuban Constitution.

Mr. MORGAN. This was addressed to the secretary of public works, Mr. Pecora, of Cuba. This is a proposal of the Chase National Bank.

Mr. PECORA. Well, I specifically asked you, Mr. Morgan, if you could tell the committee what if anything was done on behalf of the Chase Securities Corporation or the Chase National Bank, or any of its associates in this financing of the public-works program to meet the concern expressed by General Crowder in March 1926.

Mr. MORGAN. The legality—that is to say, the legality within the Platt amendment of this financing—

Mr. PECORA. Yes; now that is the question that I thought you were answering.

Mr. MORGAN. It was passed upon in detail by the lawyers in New York, and by Antonio S. De Bustamente in Habana, who, as I testified this morning, was once president of the World Court, and is now a member of the World Court, and therefore amply qualified to pass upon a question of international law.

Mr. PECORA. Simply because he is a member of the World Court he is amply qualified to pass upon a question of international law, is he?

Mr. MORGAN. He is absolutely the leading lawyer in Cuba; at the top of the Cuban bar.

Mr. PECORA. Well, let us see the opinions that these lawyers rendered, will you?

Senator COUZENS. You said this morning that you did not have them here, did you not?

Mr. MORGAN. Yes; I do not.

Mr. PECORA. Have you ever read those opinions before, Mr. Morgan?

Mr. MORGAN. I am not a lawyer.

Mr. PECORA. Well, have you ever read them?

Mr. MORGAN. No; I never have.

Mr. PECORA. So that your special study of this whole subject did not include a reading even of the opinions upon which the legality of these loans, so far as any provision of the Platt amendment was concerned, dealt with?

Mr. MORGAN. The question of legality of that sort is preferably left in the hands of the lawyers, Mr. Pecora.

Mr. PECORA. Can you produce their opinions now?

Mr. MORGAN. We are looking for the opinion, Mr. Pecora, if you want to proceed with the examination.

Mr. PECORA. I will proceed, and will you let me know when they have been found, please?

Mr. MORGAN. Yes.

The CHAIRMAN. May I ask you, do you know whether that proposal conforms to or complies with the agreement which was finally made on the 19th day of February 1927 which is recorded at page 1978 of part 4 of the Hearings before the Finance Committee, held in January and February 1932?

Mr. MORGAN. It is substantially the same. It was clarified in certain respects, and in one important respect, for instance, the commission was reduced in the final agreement.

Mr. PECORA. After the sending of this letter by Mr. Mudge to the State Department, dated February 15, 1927, the agreement with respect to the \$10,000,000 credit was entered into, was it not?

Mr. MORGAN. Yes.



Mr. PECORA. And when was it entered into?

Mr. MORGAN. February 19, 1927.

Mr. PECORA. Apparently the official advices you got from the State Department were not dated until February 21, 1927. Did your people go ahead on the 19th on the assumption that the State Department was going to say, "Amen"?

Mr. MORGAN. I notice the discrepancy in dates, and I cannot explain it except on the ground that the State Department had notified us by telegram or by telephone beforehand.

Mr. PECORA. What did you say?

Mr. MORGAN. I can only explain the discrepancy of dates on the assumption that the State Department notified by telegram or telephone that its written approval was forthcoming.

Mr. PECORA. Why do you assume any such thing, Mr. Morgan?

Mr. MORGAN. Because of the dates.

Mr. PECORA. What is that?

Mr. MORGAN. Because of the discrepancy of dates. Mr. Williams tells me that during this period the State Department made an examination of this whole question with General Crowder in Habana.

Mr. PECORA. Why do you assume that the State Department in advance of writing its letter of February 21, 1927 had communicated its judgment to your people?

Mr. MORGAN. Because we are looking for the telegram, Mr. Pecora.

Mr. PECORA. I hope you find it.

The CHAIRMAN. Did you find the opinion, Mr. Morgan?

Mr. MORGAN. I hold in my hands the opinion of Doctor De Bustamente on this financing, giving his complete approval of legal details.

Mr. PECORA. In what language is it?

Mr. MORGAN. Spanish and English.

Mr. PECORA. Is there an English translation of it with the Spanish text there?

Mr. MORGAN. Yes; both.

Mr. PECORA. Have you got the opinion that was given by Rushmore, Bisbee & Stern?

Mr. MORGAN. We are still looking for that one.

Mr. PECORA. Have you found the telegram that you assumed was sent by the State Department?

Mr. MORGAN. No; not yet.

Mr. PECORA. While they are looking for that telegram and for the opinion of Rushmore, Bisbee & Stern, I will proceed to something else. May we see that opinion?

Mr. MORGAN. Yes. [Handing paper to Mr. Pecora.]

Mr. PECORA. I see it is rather voluminous. I will ask that it be marked for identification, and then I will look it over at the conclusion of this session, and probably put it in the record tomorrow.

Mr. WILLIAMS. We would like to get that back Mr. Pecora.

Mr. PECORA. Oh, yes. That is why I am having it marked for identification, so it will be identified and you will get it back. Have you a copy of that here?

Mr. MORGAN. We have a copy in New York. We have no copies here.

Mr. PECORA. We will take good care of it, and I will see that it gets back to you.

(Opinion of Dr. Antonio Sanchez de Bustamante was marked "Committee Exhibit No. 32" for identification of Oct. 3, 1933.)

Mr. PECORA. Mr. Morgan, perhaps it would shorten your examination if I read to you part of the testimony given by Mr. Grosvenor Jones before the Senate Finance Committee, the Seventy-second Congress, at the hearings which it held pursuant to Senate Resolution 19, as that testimony is shown on pages 739 and 740, 741, and 742 of part II of the printed minutes of those hearings. Part of question put by Senator Johnson to Mr. Jones:

Do you know of any connection between the loans granted to Cuba, and the contracts granted simultaneously for the construction of roads in Cuba?

Mr. JONES. It happens that I spent about 10 months in Cuba as economic advisor to Ambassador Guggenheim. It was during that time that a \$40,000,000 special public-works loan came to the attention of the Embassy and State Department. I do not know anything about the earlier arrangements. Apparently Warren Bros., of Boston, got the contract for building the central highway, and I think they got that quite independently of the banking house that did the financing of the special public works. It looked for a time as though the National City Co. had the inside track on the financing. There was quite a little competition among American bankers to place that financing for the Cuban Government, but the Chase National Bank, or the Chase Securities Co., really won out, and I do not know that there is any connection between Warren Bros. and the Chase Securities Co.

Then followed some colloquy, and then these questions and the answers which I will read from pages 740, 741, and 742. Question by the chairman:

The CHAIRMAN. Do you know, in the case of the loan which is mentioned, whether the State Department was requested to approve it or not?

Mr. JONES. I am not altogether clear.

The CHAIRMAN. Was not that a commercial loan?

Mr. JONES. President Machado was elected to office on the pledge that during his term of office Cuba would not increase her public debt. His predecessor, Dr. Zayas, had had to issue \$50,000,000 of bonds to clear up a lot of debt incurred under his predecessor's regime. That was the regime of Menocal. But Machado said solemnly that he was not going to increase the public debt of Cuba.

There came along this grand project for building a highway from one end of the island to the other, at a time when all Latin America was stirred up by the possibilities of economic development through highway construction. General Machado was in a rather awkward position. He wanted the highway. He felt it would relieve unemployment in Cuba, and yet he did not want to increase the public debt. So, they conceived an original plan down there. They first created a lot of special revenues which they said should be set aside for public-works construction. "It will not go through the regular budget", they said. "We will call it the special public-works fund. In fact, we will make a contribution to that fund from our regular budget, and we will pay as we go in the the construction of this highway."

Well, they were a little slow in getting their plans drawn and the revenue assigned to this fund amounted up much more rapidly than anybody anticipated, and in a short time—in a year's time—they had a great fund: a great balance to the credit of this fund. So, then, they began to build this central highway. For political reasons, they had to build it in each of the five Provinces. Each Province felt that it had to have its part started, and the result was that you had the highway started at five different points, getting nowhere. Then there came the agitation, "Let us link up these various portions, so that we will get some use out of them." The only way they could do that was to speed up construction, and the only way they could speed up construction was to arrange for some temporary financing, and yet they did not want to issue bonds, so they conceived the brilliant idea of having the public works department issue to the contractors, as bits of work were completed, public-works certificates saying that the Government owes the contractor so much for such and such a job.

Senator SHORTRIDGE. Rather clever, wasn't it?

Mr. JONES. Yes. Then they said, "We will have to arrange with the bankers to discount these." So, that is where the financing of the public works in Cuba originated.

Then came a question. The bankers wondered, I believe, whether the Platt amendment applied, because the Platt amendment requires that Cuba shall float no loan, or issue no obligation the interest and service of which cannot be met out of the ordinary revenues. Well, this was not the ordinary budget. This was a special fund.

There is a little question whether the public-works fund was considered a part of the ordinary budget, but I think their idea, as I learned from talking with Cuban officials afterward, was that that was something apart from the ordinary budget.

In any case the Cuban Government succeeded in getting bankers to discount for the contractors these deferred public-works certificates.

The CHAIRMAN. American bankers?

Mr. JONES. American bankers. First it was started in a modest way, only \$10,000,000, and with these revenues coming in the way they were, it looked as though those could be paid off very easily. The Chase Securities Co., after some competition, got that business. Then, of course, like all those things, once you start it you are in for it. The Cuban Government began to spend more and more money on these projects. They thought they ought to complete the capitol. The result is that they have a \$20,000,000 capitol with a gilt dome, and all that sort of thing. Then they ought to build that fine sea wall, which General Wood restored. That ought to be extended a few miles further. Money was coming easy. But they neglected the public highway, a bit, you see. In order to get the money to make the central highway worth anything, it had to be completed. There were all these different links started, and not joined together. So that credit had to be extended to \$60,000,000. They had asked Chase for another credit of \$50,000,000, bringing up the total credit to \$60,000,000. That got a little large for Chase to swing, although they had a syndicate to handle it, so it was arranged with the Cuban Government that a part of those public-works certificates should be sold to the public in this country, and so there were two issues of \$10,000,000 each of these public works certificates sold on a serial basis to the American public.

As far as I have read this testimony of Mr. Jones to you, Mr. Morgan, do you think that he had a fairly comprehensive grasp of the situation or the facts with regard to this financing?

Mr. MORGAN. I cannot certify to the detailed accuracy of Mr. Jones' statement. It seems to me to be rather a general and cursory description.

Mr. PECORA. Does it in any way conflict with any information that you acquired or any conclusions which you reached as the result of your special study of this whole situation?

Mr. MORGAN. As a general and cursory and very casual description of what occurred, I think it is fair enough.

Mr. PECORA. The opinion rendered by this great lawyer, Mr. Bustamante, which you have submitted to us, has been read by one of our associates while I was examining you, and he informs me that the opinion in no way refers even to the Platt amendment.

Mr. MORGAN. That is correct. It certifies to all the legal aspects.

Mr. PECORA. It merely states a conclusion without setting forth the grounds upon which the conclusion is based; is that it?

Mr. MORGAN. Yes.

Mr. PECORA. Do you know whether any special consideration was given by any lawyer—whether or not he is a member of the World Court—on the question of whether or not this whole public-works program and the expenditures it would entail would be in violation of the Platt amendment to the Cuban constitution?

Mr. MORGAN. It was examined in detail by Rushmore, Bisbee & Stern and orally with Dr. Bustamante.



Mr. PECORA. What do you mean when you say, "examined orally by Dr. Bustamante"? Just a conversation with him, and then he wrote that opinion?

Mr. MORGAN. Repeated conferences with him.

Mr. PECORA. By whom?

Mr. MORGAN. The lawyers, Rushmore, Bisbee & Stearn, Mr. Williams, and Mr. Mudge.

Mr. PECORA. Have you yet found the opinion rendered by Rushmore, Bisbee & Stearn on this question?

Mr. MORGAN. We will produce it. We apparently do not have it in Washington. We are still looking for it; but apparently it is not here.

Mr. PECORA. Were any statements made by Mr. Jones in his testimony before the Senate Finance Committee in the early part of 1932, which I have just read to you, which are in any way in conflict with your conception or knowledge of what the facts were?

Mr. MORGAN. I would have to examine that statement in detail myself.

Mr. PECORA. I just read it to you.

Mr. MORGAN. Yes; you did.

Mr. PECORA. It is wholly understandable, is it not?

Mr. MORGAN. It was a general and very casual conversational exposé of the whole matter, and as for its general approach I take no particular exception to it; but I will not certify to its accuracy.

Mr. PECORA. As you heard me read it—and I hope you followed me with some care—as you heard me read it, was there anything to be testified to which is in conflict with anything you have learned concerning the facts of this financing as a result of your special study of it?

Mr. MORGAN. Mr. Pecora, I must ask you not to ask me to certify to something which I have heard orally across the table and which I have had no opportunity to examine in detail. I do not certify to anybody else's work.

Mr. PECORA. Do you recall a single statement made by Mr. Jones in his testimony before the Senate Finance Committee which I read to you which is in conflict with anything in your mind, based upon either personal knowledge on your part or examination of records or hearsay from any source?

Mr. MORGAN. In answering that question I would give a negative assent to the accuracy of his statement.

Mr. PECORA. What does that mean—a negative assent?

Mr. MORGAN. It means that if I take no exception to it I approve it in toto. I do no such thing. I cannot approve anybody else's work read to me casually like that. If you would like a memorandum prepared carefully in response to that, I would be glad to do it.

Mr. PECORA. No; I do not.

The CHAIRMAN. You can go as far as the statement and say you see no occasion to raise any objection to it.

Mr. PECORA. Whether you read it or not, did you ever see the opinion rendered by Rushmore, Bisbee & Stern on the question of the Platt amendment applying to the expenditure for the public-works program?

Mr. MORGAN. No.

Mr. PECORA. When did you first learn, or when were you first informed by anybody, that such an opinion had actually been rendered?

Mr. MORGAN. I cannot fix whether it was 2 years ago or more recently, but at the time I read the form of the contract and saw it was approved by Rushmore, Bisbee & Stern and by Dr. Bustamante.

Mr. PECORA. That approval of the contract may have related only to the form of the contract, may it not?

Mr. MORGAN. All of its legal aspects.

Mr. PECORA. In the opinion rendered by Dr. Bustamante which I have already called to your attention, there was no discussion whatsoever of the applicability of the Platt amendment to the expenditures called for by this public works program, was there?

Mr. MORGAN. It was not necessary to do so, because he approved it in toto, all of its legal aspects.

Mr. PECORA. How do you know that he considered that particular question?

Mr. MORGAN. I have been so informed today by our lawyers.

Mr. PECORA. When were you so informed?

Mr. MORGAN. Today.

Mr. PECORA. You mean, this afternoon?

Mr. MORGAN. Today.

Mr. PECORA. Well, this afternoon is part of today.

Mr. MORGAN. This morning and this afternoon—several times.

Mr. PECORA. You were informed twice on that?

Mr. MORGAN. Several times.

Mr. PECORA. Was your mind in any doubt about it after you first got the information this morning, so that you had to be informed about it several times?

Mr. MORGAN. I have not been in doubt on this question at any time.

Mr. PECORA. At this time I will offer in evidence for the record a copy of the so-called proposal referred to in Mr. Mudge's letter to the State Department of February 15, 1927, as a proposal submitted on September 6, 1926.

The CHAIRMAN. Let it be admitted and entered on the record.

(Copy of document headed "Financing Proposition" referred to was received in evidence as Committee's Exhibit No. 33, of October 23, 1933, and will be found on page 2610.)

The CHAIRMAN. Mr. Morgan, let me ask you this. In January and February 1927, who were the officers in charge of the branch of the Chase Bank in Cuba?

Mr. MORGAN. William Ignatius Quealley and Jose Obregon.

The CHAIRMAN. What positions did they hold?

Mr. MORGAN. They were joint managers.

The CHAIRMAN. Mr. Obregon was the son-in-law of President Machado, was he not?

Mr. MORGAN. Excuse me, Senator. I have got to correct that. Obregon did not come into the bank until May 1927.

The CHAIRMAN. Before that you only had one man?

Mr. MORGAN. Mario Seiglie.

The CHAIRMAN. Obregon was the son-in-law of President Machado?

Mr. MORGAN. He came in as new-business man in the Habana branch in May 1927, 4 or 5 months after this.

The CHAIRMAN. What was his relation to President Machado?

Mr. MORGAN. Son-in-law.

The CHAIRMAN. Did the other manager go down from New York, then?

Mr. MORGAN. He lived there, Senator; Quealley lived there.

Mr. PECORA. Now, Mr. Morgan, have you succeeded as yet in finding either the opinion of Rushmore, Bisbee & Stern or the telegram that you think was received from the State Department?

Mr. MORGAN. No, Mr. Pecora.

Mr. PECORA. This forenoon in the course of your testimony you made some reference to General Crowder, as I recall it, as having been interested at that time in some other company. What did you mean by that?

Mr. MORGAN. I attempted to explain that at the time, Mr. Pecora. If you will remember the situation in 1923 in Cuba, there was a very large refunding operation put through under the Crowder regime, soon after General Crowder got down there. The house that put that financing through did a piece of public service, I might say.

Mr. PECORA. And what was that house?

Mr. MORGAN. J. P. Morgan & Co. And I have been told that General Crowder felt a certain sense of obligation toward this other house with respect to any further financing that was to come through. That is the sole extent of the interest, and I used the word "interest", as I explained at that time, in the most laudatory way with respect to General Crowder.

Mr. PECORA. Do you mean by that, among other things, that General Crowder felt that the bankers that had done that financing in 1923 should have been permitted to do all the external financing subsequently for the Cuban Government?

Mr. MORGAN. That was the impression that our people then derived. And yet the field was open. It was a government with financing in prospect, and the field was open to anyone who could do the business in the most satisfactory way for the debtor. General Crowder consistently—well, I should say that there were innumerable conversations with General Crowder during this whole period, and many of them very frank.

Mr. Williams tells me that he probably lunched with General Crowder a hundred times—

Mr. WILLIAMS (interposing). Not lunched but discussed.

Mr. MORGAN. Well, that it was discussed a hundred times with General Crowder, I mean these various questions. So that there was nothing secretive at all so far as the relations between our counsel and General Crowder were concerned.

The CHAIRMAN. J. P. Morgan & Co. were not one of the competitors for this 10 million dollar business, were they?

Mr. MORGAN. They did not put in a bid.

Mr. PECORA. Didn't Mr. Batchelder in his communication which has been placed in evidence and marked "Committee Exhibit No. 31, October 23, 1933", in July of 1926, refer to J. P. Morgan & Co.'s interest in securing this financing as an interest that was being promulgated through the National City Co.?

Mr. MORGAN. Well, now, let me see—



Mr. PECORA (continuing). For instance, let me refer to these two paragraphs in Mr. Batchelder's letter, on the last page of it:

The City Co. people are doing nothing more than to keep an eye on the business, inquiring once or twice a week if there is any progress. I feel that their activity stopped about 3 weeks before we got down there, they having then reached about the same conclusion as ours. The Morgan people, if they have any interest in the indirect loan, have it through the City Co.; but if a direct loan does come out of all this they probably expect to get it in their own name.

Don't you think that was what Mr. Batchelder had in mind when he wrote that?

Mr. MORGAN. That is what he said.

Mr. PECORA. Now, while I am on this subject of Mr. Batchelder's letter—

Mr. MORGAN (continuing). Mr. Batchelder didn't say they had an interest, but he said if they had any interest. That is what I understood you to say.

Mr. PECORA. While I am on the question of this letter of Mr. Batchelder's I want to ask you specifically about this statement in it, on the second page, last paragraph:

The secretary of public works, who has all the money he wants, is apparently out to make a record for himself by making the best trade possible for the Government on all construction work and purchases.

What do you think Mr. Batchelder had in mind when he said, in referring to the secretary of public works: "He has all the money he wants"?

Mr. MORGAN. It means, as you have already read in the testimony of Grosvenor Jones, that the proceeds from taxation had accumulated rather rapidly and that he therefore had funds with which to prosecute the work then in process, such as the making of plans and surveys.

Mr. PECORA. You do not mean that the secretary of public works, having all the money he wanted, was out to make a record of public service, then?

Mr. MORGAN. I did not interpret it that way.

Mr. PECORA. Now, were any instrumentalities or intermediaries used by the Chase people for the purpose of securing this financing from the Cuban Government?

Mr. MORGAN. Are you referring to the word "intermediaries" in Mr. Batchelder's letter?

Mr. PECORA. I am referring to it in its ordinary meaning.

Mr. MORGAN. No. We went after it directly.

Mr. PECORA. You went after it directly?

Mr. MORGAN. Yes.

Mr. PECORA. Well, did you employ or use any intermediaries, any other agencies, than the immediate representatives or officers of Chase Securities Corporation?

Mr. MORGAN. The intermediaries referred to in the letter of Mr. Batchelder are the secretary of public works and the Secretary of the Treasury. He complained, if you recall, that he was unable to go directly to the President.

Mr. PECORA. Now, in your special study of the history of these Cuban loans, did you come across a memorandum addressed to Mr.

Callahan and Mr. McKee by Mr. A. K. Geiger, dated January 21, 1932? In connection with this question I invite your attention to a document which you will probably find in your files bearing the number 56-69 in the upper right-hand corner.

Mr. MORGAN. Yes.

Mr. PECORA. Do you find such a memorandum?

Mr. MORGAN. Yes.

Mr. PECORA. I show you what purports to be a photostatic copy of it and will ask you to kindly look at it and tell us if it is a true and correct copy of such a memorandum.

Mr. MORGAN. That is correct.

Mr. PECORA. I now offer it in evidence, Mr. Chairman, and ask that it may be spread on the record of our hearings.

The CHAIRMAN. Let it be admitted, and the committee reporter will make it a part of the record.

(A memorandum dated January 21, 1932, addressed to Mr. Callahan and Mr. McKee was marked "Committee Exhibit No. 34, October 23, 1933," and will be found in full below where read by Mr. Pecora.)

Mr. PECORA. Now, the memorandum in question, marked "Committee Exhibit No. 34" in evidence as of this date, reads as follows:

MEMORANDUM

JANUARY 21, 1932.

To Mr. CALLAHAN and Mr. McKEE:

As you know references to the Cuban public-works financing have on at least two occasions been made in the recent Senate testimony. While there is no intimation as yet that we may be called before the committee on this transaction, I have drafted roughly my ideas of a statement which we might use in event we are called. I would very much appreciate it if at your convenience you would go over this statement from the point of view of—

(a) Whether or not I have approached the subject in the proper way, and

(b) Whether the statement should contain a flat denial that we made any commission payment.

Now, the Senate testimony referred to in this memorandum was testimony that had recently, theretofore, been elicited before the Senate Finance Committee, in the early part of 1932, under Senate Resolution No. 19 of the Seventy-second Congress, wasn't it?

Mr. MORGAN. Yes.

Mr. PECORA. And that is the committee which after the date of this memorandum actually did call Mr. Carl Schmidlapp, one of the officers of Chase, before it, and examined him with regard to these loans. Is that right?

Mr. MORGAN. That is true.

Mr. PECORA. Do you know whether Mr. Schmidlapp in the testimony which he gave after the date of that memorandum before the Senate Finance Committee read a statement which corresponded to the rough draft which had been prepared by Mr. Geiger and submitted by him, with this memorandum which has been just marked in evidence, to Mr. Callahan and Mr. McKee for their possible approval?

Mr. MORGAN. I do not know whether that statement as given by Mr. Schmidlapp was the direct outgrowth of this memorandum or not.

Mr. PECORA. Have you seen the statement which Mr. Geiger apparently forwarded to Mr. Callahan and Mr. McKee with this memorandum of his dated January 21, 1932?

Mr. MORGAN. I have no recollection of it.

Mr. PECORA. Do you find any copy of it in the records or files?

Mr. MORGAN. No.

Mr. PECORA. Do you know anything at all about the contents of such a statement?

Mr. MORGAN. None other than appears from the memorandum as you have read it.

Mr. PECORA. Well, the memorandum which has been read into the record does not give the substance of the statement, does it?

Mr. MORGAN. No.

Mr. PECORA. Or make any allusion to those contents, does it?

Mr. MORGAN. No.

Mr. PECORA. Well, now, in view of the fact that you undertook either 3 or 4 or 5 or 6 weeks ago to make a special study of this subject in order to testify before this committee thereon, did you come across this memorandum of Mr. Geiger's and see the reference therein to a statement which he prepared for possible use before the Senate Finance Committee in behalf of your bank or of the Chase Securities Corporation; did you speak to Mr. Geiger about it?

Mr. MORGAN. I did not. I knew the subject that was under discussion, and the answer to it is so palpable, so complete, that it seemed to me that there was no sense in pursuing the question further.

Mr. PECORA. You would rather, then, that I would not pursue it further?

Mr. MORGAN. Indeed no. I am prepared to answer any question along that line that you may ask.

Mr. PECORA. How can you answer any question about a statement that you have never seen and the contents of which you are not informed about?

Mr. MORGAN. I am talking about the subject. I am talking about the alleged commission paid by the Chase Bank, and no commission of that sort was ever paid.

Mr. PECORA. I asked you whether you ever discussed the memorandum with the other gentlemen.

Mr. MORGAN. The photostat which you have just placed in the record refers to a commission. I can answer to that commission matter, and I know how silly the whole canard was in the beginning, and I would be glad to explain it to you in whatever way you may wish. That is what has already been done before the Senate Finance Committee.

Mr. PECORA. What are the sources of your information about it?

Mr. MORGAN. The records of the Chase National Bank.

Mr. PECORA. What specific records?

Mr. MORGAN. The accounting records of the Chase National Bank; the statements uniformly of the officers who had to do with it, and the correspondence from beginning to end.

Mr. PECORA. Well now, Mr. Chairman, I think in view of the fact that Mr. Geiger is actually present here and has been sitting alongside Mr. Morgan throughout all the testimony that Mr. Morgan has



given today, that this is one point where we might temporarily suspend the examination of Mr. Morgan and take up the examination of Mr. Geiger. So I ask that he now be sworn.

The CHAIRMAN. Mr. Geiger, will you stand up and hold up your right hand: You solemnly swear that the testimony you will give in the proceeding now before this committee will be the truth, the whole truth, and nothing but the truth. So help you God.

Mr. GEIGER. I do.

**TESTIMONY OF A. K. GEIGER, A SECOND VICE PRESIDENT OF  
THE CHASE NATIONAL BANK, SCARSDALE, N.Y.**

Mr. PECORA. Mr. Geiger, are you connected with the Chase National Bank?

Mr. GEIGER. I am.

Mr. PECORA. In what capacity?

Mr. GEIGER. As a second vice president.

Mr. PECORA. Will you please give your residence for the record?

Mr. GEIGER. Scarsdale, N.Y. My business address is 18 Pine Street.

Mr. PECORA. Mr. Geiger, how long have you been connected with the Chase National Bank in any capacity?

Mr. GEIGER. Since June 1, 1930.

Mr. PECORA. Prior to that were you connected with Chase Securities Corporation?

Mr. GEIGER. No, sir. I was connected with the Equitable Trust Co. of New York.

Mr. PECORA. And the Equitable Trust Co. of New York was merged with the Chase National Bank some time in 1930?

Mr. GEIGER. Yes.

Mr. PECORA. How long prior to the merger had you been connected with the Equitable Trust Co., and in what capacities?

Mr. GEIGER. I believe I went with the Equitable around 1919, or it may have been 1920.

Mr. PECORA. Did you continue in its service continuously until it was merged with the Chase National Bank?

Mr. GEIGER. Yes, sir.

Mr. PECORA. And upon such merger you became a second vice president?

Mr. GEIGER. No, sir; I did not. I was taken into Chase Securities Corporation as an assistant manager. I became a second vice president of the Chase National Bank in September of 1931.

Mr. PECORA. Who was the Mr. Callahan and who was the Mr. McKee whom your memorandum marked in evidence here as "Committee's Exhibit No. 34" of this date, was addressed?

Mr. GEIGER. Mr. Callahan was a vice president of Chase Securities Corporation at the time that memorandum was addressed—or the Chase Company—no, it was still Chase Securities Corporation. He is dead. Mr. McKee was likewise a vice president of that corporation.

Senator COUZENS. Where is he now?

Mr. PECORA. He is here.

What prompted you, Mr. Geiger, to write this memorandum and submit it to Mr. Callahan and Mr. McKee?

Mr. GEIGER. I wanted to be prepared for any testimony that might be called for before the Senate committee.

Mr. PECORA. That is, the Senate Finance Committee that was conducting an inquiry under Senate Resolution 19 of the Seventy-second Congress?

Mr. GEIGER. Correct.

Mr. PECORA. You knew at that time that there was actually under way before that committee an investigation or inquiry into these Cuban loans among other foreign loans?

Mr. GEIGER. I knew there was an inquiry into foreign loans.

Mr. PECORA. And had the public-works financing been referred to as yet in the testimony adduced before the Senate Finance Committee up to January 21, 1932?

Mr. GEIGER. I do not recall whether it was a reference to the public-works financing, but certainly it was a reference either to Cuba or the public-works financing.

Mr. PECORA. And was it upon your initiative that you prepared a statement and submitted it to Mr. Callahan and Mr. McKee with this memorandum?

Mr. GEIGER. Entirely.

Mr. PECORA. What did you mean when you in this memorandum asked those gentlemen to advise you, first, whether or not in the preparation of that statement you had approached the subject in the proper way?

Mr. GEIGER. Whether or not it was logical to develop the situation step by step or to attempt just a flat statement as to what the total of the financing was.

Mr. PECORA. And what did you have in mind when you asked these gentlemen to advise you in connection with your statement whether that statement should contain a flat denial that you made any commission payment?

Mr. GEIGER. Whether it was more advisable to come out through questioning or to give voice to it in the very beginning.

Mr. PECORA. What if anything had been said up to that time on the matter of whether or not the Chase Securities Corporation or the Chase Bank had paid any commissions to anybody in connection with its obtaining of the Cuban public financing business?

Mr. GEIGER. Not one thing, but the inquiry before the Senate committee seemed to be directed at that one particular point.

Mr. PECORA. And, although nothing had yet been said before that committee by anyone with regard to whether or not any commissions had been paid by your institutions in connection with this Cuban public-works financing, you felt it necessary or wise or proper as a precautionary measure to be prepared to meet questioning in advance of your being called upon, is that right?

Mr. GEIGER. Yes, sir.

Mr. PECORA. Now, do you know that Mr. Carl Schmidlapp, at that time an officer of the bank, testified 6 days after the date of this memorandum before the Senate Finance Committee?

Mr. GEIGER. I know it now.

Mr. PECORA. And do you know that he read a statement to the committee at the outset of his testimony?

Mr. GEIGER. I do.

Mr. PECORA. Do you know what statement it was that he read?

Mr. GEIGER. I could not repeat it. I know it in general terms.

Mr. PECORA. Was it in words or substance the statement that you submitted to Mr. Callahan and Mr. McKee on January 21, 1932, with this memorandum?

Mr. GEIGER. In general form I think it was. I could not make the specific answer without a comparison.

Mr. PECORA. Did you help Mr. Schmidlapp or anyone else in the preparation of the statement which Mr. Schmidlapp actually read to the committee 6 days later?

Mr. GEIGER. Only in a general way.

Mr. PECORA. Did you see the statement which he read?

Mr. GEIGER. I did.

Mr. PECORA. And you helped to prepare it?

Mr. GEIGER. Only in a general way.

Mr. PECORA. Well, you helped to prepare it, didn't you, whether in a general way or any other way, you helped to prepare it?

Mr. GEIGER. Yes.

Mr. PECORA. Did that statement contain any flat denial that the Chase interests had made any commission payments to anyone for the purpose of securing this Cuban public-works financing?

Mr. GEIGER. My recollection is it did.

Mr. PECORA. Did that statement also contain an averment that the Chase interests had not used any intermediaries whatsoever in getting that financing?

Mr. GEIGER. It is my recollection that it did, Mr. Pecora.

Mr. PECORA. Is that statement true?

Mr. GEIGER. To the best of my knowledge it is absolutely true.

Mr. PECORA. Now, when you assisted in the preparation of that statement had you had access to the letter which Mr. Batchelder wrote under date of July 29, 1926, a copy of which has been received in evidence here today marked "Committee's Exhibit 31"?

Mr. GEIGER. I do not recall that letter specifically, but undoubtedly I must have had access to it. I had access to the files.

Mr. PECORA. Let me read to you from the testimony of Mr. Schmidlapp given before the Senate Finance Committee on January 27, 1932, the following: Immediately after he was sworn Mr. Schmidlapp said, reading from page 1945 of part IV of the printed minutes of that hearing. [Reading:]

Mr. SCHMIDLAPP. Mr. Chairman, if permitted, I have a brief statement which has been prepared in regard to Cuban Government finance that I would like to read if you will bear with me.

The CHAIRMAN. There are no objections to that, Mr. Schmidlapp.

Mr. SCHMIDLAPP. The financing by The Chase National Bank and its associates for the Cuban Government was in connection with the construction of public works, pursuant to the Public Works Law of July 15, 1925, effective originally until 1935 and later extended to 1945. This financing consisted of three operations, each of which was negotiated directly with the Cuban Government, and no intermediaries were used and no commissions paid.

Do you find that statement?

Mr. GEIGER. I do.

Mr. PECORA. Let me now refer you to the following extract from the letter of Mr. Batchelder to Mr. Tinker, whom he addressed as



"Dear Ned", dated July 29, 1926, being Committee's Exhibit No. 31 of this date, reading from the second page thereof:

Regarding our position, it seems to me that we are as well situated as any of our competitors. In order to have had two strings to our bow I should like to have been allowed to impress our own individuality upon the president rather than relying entirely upon intermediaries.

Now doesn't it appear to you, Mr. Geiger, that Mr. Batchelder at that time had some knowledge of the fact that the Chase interests were at that time or had been prior to that time relying upon intermediaries?

Mr. GEIGER. No, sir.

Mr. PECORA. What do you think was the reason for that statement of his in his letter to Mr. Tinker?

Mr. GEIGER. Mr. Batchelder says here very clearly that he would like to have impressed his individuality upon the president.

Mr. PECORA. But he also said that he wanted to have that in order to have two strings to the bow.

Mr. GEIGER. Yes, sir.

Mr. PECORA. The other string being intermediaries?

Mr. GEIGER. No; the Secretary of Public Works and Secretary of the Treasury, with whom he dealt.

Mr. PECORA. Who?

Mr. GEIGER. The secretary of public works and the Secretary of the Treasury.

Mr. PECORA. Were not being used as intermediaries?

Mr. GEIGER. By no means. He was dealing with them.

Mr. PECORA. Who were the intermediaries that Mr. Batchelder had in mind when he made this statement in his letter?

Mr. GEIGER. There are no intermediaries that I read from this letter.

Mr. PECORA. Well, now, you do read it clearly, don't you, that Mr. Batchelder in July 1926, through the medium of this letter, was trying to impress upon Mr. Tinker, the president of the Chase Securities Corporation at that time, the advisability of the Chase Securities Corporation having two strings to their bow in their competition with other banking interests and that one of those two strings would consist of impressing his own or the Chase's own individuality upon the president, and the other one was the reliance upon intermediaries?

Mr. GEIGER. I read that very clearly.

Mr. PECORA. Well.

Mr. GEIGER. But "intermediaries" there refers to Machado's ministers, who were his intermediaries.

Mr. PECORA. Was the Chase Corporation relying upon two other officers of the Machado Government for the purpose of impressing the President?

Mr. GEIGER. No; he was dealing with those. He could not go direct to the president.

Mr. PECORA. They were not intermediaries; they were principals, were they not? If he was dealing with them, he was dealing with them as principals, not as intermediaries for the Chase?

Mr. GEIGER. I believe that financing was all accepted by decree of the President himself.

Mr. PECORA. What is that?

Mr. GEIGER. I believe that this financing of Cuba was accepted by decree of the President himself, after being advised by his board of awards, and in this letter it is quite consistent that Mr. Batchelder was referring to the ministers of public works and of finance.

Mr. PECORA. You believe that they were the persons he had in mind when he made this reference to intermediaries in this letter?

Mr. GEIGER. I firmly believe that, Mr. Pecora.

Mr. PECORA. Well, now; these two gentlemen whom you mentioned were part of the Cuban Government at that time, were they not?

Mr. GEIGER. Yes.

Mr. PECORA. Officially connected with it?

Mr. GEIGER. Yes.

Senator ADAMS. To carry out your idea he would have more appropriately used the word "subordinates", would he not?

Mr. GEIGER. He certainly would have, Senator.

Senator ADAMS. And he is pretty accurate in his use of language, isn't he, Mr. Geiger?

Mr. GEIGER. Well now, I don't know.

Mr. PECORA. Do you recall, Mr. Geiger, a Mr. Catlin, whose name has already been referred to in testimony here given by Mr. Morgan, the preceding witness?

Mr. GEIGER. I recall that name in the records.

Mr. PECORA. Did Mr. Catlin receive any compensation for any services he rendered to Chase in connection with its attempt to get this financing business?

Mr. GEIGER. He received compensation from the Chase.

Mr. PECORA. In what amount?

Mr. GEIGER. In three payments.

Mr. PECORA. What was the aggregate?

Mr. GEIGER. The aggregate was \$55,000.

Mr. PECORA. \$55,000. What did he receive that compensation for?

Mr. GEIGER. That compensation, pardon me, Mr. Pecora, was received over a period I believe of about 5 years.

Mr. PECORA. It was charged against expenses in connection with the acquisition of this financing, was it not?

Mr. GEIGER. Over that period.

Mr. PECORA. I say it was charged against expenses in connection with this financing, which was not commenced until February 1927?

Mr. GEIGER. Precisely.

Mr. PECORA. What was the first payment that he received for his services in connection with this financing?

Senator COUZENS. While he is looking that up, what was his connection at that time?

Mr. PECORA. Mr. Morgan has already testified that he was connected with the Electric Bond & Share and was also connected with the branch of the Chase National Bank in Havana, Cuba, at that time.

Mr. GEIGER. His first payment, Mr. Pecora, was \$15,000 in connection with the February 19, 1927, agreement.

Mr. PECORA. Did not the Chase also pay Rushmore, Bisbee & Stern and Dr. Bustamante for their legal services in connection with this financing?

Mr. GEIGER. They did.

Mr. PECORA. Catlin at that time was an officer of the Chase National Bank or manager of its Havana, Cuba, branch?

Mr. GEIGER. No, sir.

Mr. PECORA. What was he at that time?

Mr. GEIGER. He was a member of the advisory committee, not an officer.

Mr. PECORA. Member of the advisory committee of the Chase branch in Habana. Did he receive any compensation for any service he rendered as a member of its advisory committee?

Mr. GEIGER. I do not know, sir.

Mr. PECORA. He was also connected actively with the Electric Bond & Share Co., I believe?

Mr. GEIGER. A lawyer.

Mr. PECORA. A lawyer connected with the Electric Bond & Share. Did he render any legal services in connection with the obtaining of this financing by the Chase?

Mr. GEIGER. Not in obtaining it.

Mr. PECORA. Did he render any legal services in any way relating to the obtaining of this financing business by the Chase interests?

Mr. GEIGER. When the bank first entered on the negotiations for the public works financing in 1926 New York counsel suggested to Mr. Barr, vice president in charge of the Habana office, that it would be advisable and desirable to have available in Habana an American with a thorough understanding of Spanish with whom they could consult on Spanish documents, translations, and conditions in Cuba and the personalities with whom they had to deal.

Mr. PECORA. Are you reading that from a prepared statement?

Mr. GEIGER. I am, sir.

Mr. PECORA. Who prepared it?

Mr. GEIGER. We prepared it jointly, Mr. Morgan, Mr. Williams, and myself, from the records.

Mr. PECORA. When?

Mr. GEIGER. In connection with the study which Mr. Morgan has made.

Mr. PECORA. When; within the last 3 or 4 weeks?

Mr. GEIGER. Within the last 4 to 5 weeks.

Mr. PECORA. All right. Apparently that refers to activities of Mr. Catlin long prior to the time that you became connected with the Chase?

Mr. GEIGER. Yes, sir.

Mr. PECORA. So that all the knowledge you have about it is purely hearsay, is it not?

Mr. GEIGER. It is from study.

Mr. PECORA. I say it is purely hearsay, is it not?

Mr. GEIGER. Study. If study is hearsay, yes.

Mr. PECORA. Yes; study is hearsay. Mr. Williams will agree to that, will you not, Mr. Williams?

Mr. WILLIAMS. It depends on what you are studying, Mr. Pecora.

Mr. PECORA. That is a lawyer's answer.

How were you in a position to join in the preparation of a statement concerning what Mr. Catlin did or was supposed to do back in 1926 for the Chase interests?

Mr. GEIGER. I studied these Cuban records very thoroughly; sir.



Mr. PECORA. Did you find anything in the records which, apart from what you may have heard from anybody, informed you what Mr. Catlin did?

Mr. GEIGER. It is hard to differentiate, Mr. Pecora, between what I found in the files and what I was informed by those with whom I am working.

Mr. PECORA. You can easily tell us what you found in the files by looking at your files and calling our attention to anything you found in the files bearing on that.

Mr. GEIGER. Specifically I did not find statements that New York counsel suggested that. I was informed of that.

Mr. PECORA. Did you find anything in the files that gave you any information concerning what Mr. Catlin did for the \$55,000?

Senator GOLDSBOROUGH. Mr. Geiger, do you know whether it is commonly reported that Mr. Catlin was really a promoter in the ordinary sense of that word?

Mr. GEIGER. I have never heard him referred to as such.

Mr. PECORA. Did you answer Senator Goldsborough's question?

Mr. GEIGER. Yes; I did.

Mr. PECORA. In the study which you made, or helped Mr. Morgan make, on these Cuban loans for the purpose of informing this committee about them, did you come across a letter dated February 25, 1931, addressed to Mr. Joseph Rovensky, vice president of the Chase National Bank in New York City? Let me refer you to your files by exhibit no. 55-81-A.

Mr. GEIGER. I have that letter.

Mr. PECORA. Will you turn to page 4 of it? Do you find this statement in that letter? [Reading:]

I think that at the moment the President is so hard up that he will jump at anything that looks like additional cash.

Mr. GEIGER. What part of that page, Mr. Pecora? The copy I have is very bad. [After a pause.] I have it now.

Mr. PECORA. While you are looking for that particular portion of the letter—

Mr. GEIGER. I have it now.

Mr. PECORA. Let me ask you who wrote this letter to Mr. Rovensky.

Mr. GEIGER. It is not signed, but I believe it was written by Mr. James Bruce.

Mr. PECORA. What relationship did Mr. James Bruce bear at that time to the Chase interests?

Mr. GEIGER. He was a vice president of the Chase National Bank.

Mr. PECORA. Was he down in Cuba at the time this letter was written, namely, February 25, 1931?

Mr. GEIGER. He was either there or had been there recently. My impression is that he was not there at the time this letter was written, sir.

Mr. PECORA. Now, if you have found the portion of the letter from which I started to read, will you please follow me while I resume the reading of the portion I want to bring to your attention? [Continuing reading:]

I think that at the moment the President is so hard up that he will jump at anything that looks like additional cash. In this regard, Henry Catlin arrived on the scene just two days before I left, and although I have no

particular objection to Henry personally, he would have complicated my position very much had I remained, because he runs in and out of the palace every little while, and is trying to get his own taxes reduced, and would be delighted to play Lady Bountiful with the funds of the Chase Bank.

Do you find that?

Mr. GEIGER. I have that.

Mr. PECORA. Do you find also that Mr. Bruce, in this letter to Mr. Rovensky, said as follows (reading):

Another thing that although Henry is on our advisory committee, it is impossible to talk frankly with him, as you know what you say will be repeated in the palace.

Mr. GEIGER. I have that.

Mr. PECORA (continuing reading):

He told me—which I think is entirely true—that the President is desperately in need of the money for the Government, and that it was most important for us to put up \$1,500,000. In fact, he had at least 10 very good reasons why we should do this. He stated, among other things, the \$30,000 which the President borrowed from us in his private account, he loaned to the Government.

Do you find that in that letter?

Mr. GEIGER. I do, Mr. Pecora.

Mr. PECORA. Did you have that letter before you when you helped prepare the statement which Mr. Schmidlapp read to the Senate Finance Committee on January 27, 1932?

Mr. GEIGER. I do not recall that I had it before me.

Mr. PECORA. When, for the first time, was your attention ever called to that letter of Mr. Bruce?

Mr. GEIGER. I do not recall the specific date. I have been in and out of the files relating to Cuban matters many times. I have, within the last 5 weeks, seen this letter.

Mr. PECORA. Did you see it for the first time within the last 5 weeks?

Mr. GEIGER. I cannot testify yes or no to that.

Mr. PECORA. Have you any recollection at all of ever having seen it prior to the time, within the last 5 weeks or so, that you assisted Mr. Shepard Morgan in making this special study?

Mr. GEIGER. I have no special recollection of it.

Mr. PECORA. I think that is all for today.

Mr. MORGAN. May I interject at this point, before the hearing is closed?

Mr. PECORA. It is not closed. It is going to be resumed tomorrow morning.

Mr. MORGAN. But before this session is closed. You have been good enough to ask me certain questions during the day, and I would like to clarify this point before we leave it.

Point 1: The date of this letter of Mr. Bruce's is February 23, 1931.

Senator COUZENS. That is in the record.

Mr. PECORA. That needs no clarification, does it?

Mr. MORGAN. Yes, because the reference is to Henry Catlin, and the prior discussion was with respect to Henry Catlin's activities in and about the year 1927, some 4 years previous.

Mr. PECORA. Are you through clarifying that?

Mr. MORGAN. The reference to Machado's shortness of cash is perfectly clear from the subsequent reference in Mr. Bruce's own letter,

where he speaks of the Government being short of money. I can not allow anybody to have any misapprehensions that Mr. Bruce had in mind, or that anybody dealing with this financing had in mind, the Chase Bank acting as Lady Bountiful in a private way.

Mr. PECORA. I do not know what they had in mind. Mr. Bruce might tell us, or Mr. Catlin might.

Mr. MORGAN. That is precisely what I want to make clear at this date.

Mr. PECORA. Apparently what Mr. Bruce had in mind he expressed in plain words in this letter.

Mr. MORGAN. Yes; but——

Mr. PECORA. Do you want to attempt to explain his language?

Mr. MORGAN. I have done so.

Mr. PECORA. This morning you preferred to let certain statements in another document which was put in evidence speak for themselves, without any elaboration or explanation or interpretation.

Mr. MORGAN. You see, Mr. Pecora, I think that improper inferences might be drawn from the reading of this letter, and the two or three isolated passages in this letter, and I must correct them before the testimony is cleared for the day. The Chase Bank has not acted through intermediaries. It has not paid commissions in any respect, in the whole course of this financing.

Mr. PECORA. That is what you believe—not what you know, but what you believe, because you have no personal knowledge, have you?

Mr. MORGAN. Neither I nor anyone else has any evidence to the contrary.

Mr. PECORA. I say, you have no personal knowledge to support what you say.

Mr. MORGAN. I have the knowledge from men whom I believe, from records which I believe, and I can not let any false inferences pass out before the public.

Mr. PECORA. Perhaps you will tell this committee what you think Mr. Bruce meant when he referred to Henry Catlin in this letter in the way in which he referred to him.

Mr. MORGAN. With reference to Mr. Catlin—I do not want to be unkind to a man who is dead, but he refers to Henry Catlin here as a nuisance, and I am afraid that is precisely the fact, at this stage.

Mr. PECORA. At the time he wrote this letter——

Mr. MORGAN. Prior to that time he was very useful, as Mr. Geiger has already indicated, in advising the Chase Bank with respect to Latin customs in Habana, as a lawyer.

Mr. PECORA. Do you think you knew more about Mr. Catlin's activities and relationship to this whole question than Mr. Bruce did when he wrote this letter and was in contact with Mr. Catlin right on the ground there?

Mr. MORGAN. I have not altered in any sense Mr. Bruce's utterances here in this letter. I have simply pointed out the facts which were not, I think, amply clear, that is, that this letter was written 4 years after the financing which has been previously in discussion, and second, that the reference was with respect to loans to be granted to the Cuban Government, which Machado then desired, and which he did not receive.



Mr. PECORA. Do you know anything about any relationship between Mr. Catlin and President Machado?

Mr. MORGAN. I know that they were both interested in an electrical concern in Santiago.

Mr. PECORA. What was the name of that concern?

Mr. MORGAN. I cannot give it in Spanish, but I think it was the Santiago Electric Co.

Mr. PECORA. What relationship did Mr. Catlin have to that company?

Mr. MORGAN. This was long before Mr. Machado became President.

Mr. PECORA. I know; but what relationship did he have to it?

Mr. MORGAN. I want to get the dates completely straight.

Mr. PECORA. What relation did he have to it?

Mr. MORGAN. Mr. Catlin was president and Machado was vice president.

Mr. PECORA. What relationship did General Machado have to it at that time?

Mr. MORGAN. He was vice president.

Mr. PECORA. That was when?

Mr. MORGAN. Prior to the time General Machado became President.

Mr. PECORA. That was in 1925, was it not?

Mr. MORGAN. Or prior to that date.

Mr. PECORA. It was in 1925 that General Machado became President, was it not?

Mr. MORGAN. On May 20.

Mr. PECORA. Yes; and Mr. Catlin, according to the testimony which you have given before this committee today, and according to the testimony which Mr. Geiger has given before this committee this afternoon, received \$55,000 by way of compensation for legal services from the Chase interests in connection with services rendered by him in relation to this financing.

Mr. MORGAN. Over a period of 5 years.

Mr. PECORA. Beginning when?

Mr. MORGAN. And—

Mr. PECORA. Beginning when?

Mr. MORGAN. Three years.

Mr. PECORA. Beginning when?

Mr. MORGAN. 1927, concluding in 1930. His services began in 1926—a period of 4 years.

Mr. PECORA. He was the same Catlin to whom Mr. Bruce referred in this letter of February 23, 1931, as the man who was always running in and out of the palace, as the man whom the Chase people should not trust because everything that was said to him was repeated by him in the palace? He is that same man?

Mr. MORGAN. Mr. Catlin was not physically the same man in 1931 that he was in 1926 and 1927.

Mr. PECORA. He was the same personality, the same individual, was he not? I have not asked you about the condition of his health.

Mr. MORGAN. In the eyes of the Almighty, yes; but physically and mentally, no. And you must not overlook, in this whole connection, that this financing was all awarded on public letting, fully known to everyone, open to public examination.

Mr. PECORA. You had better not give your testimony on that now, because I am going to ask you about it in detail tomorrow.

Mr. MORGAN. All right. We will be glad to come in.

Mr. PECORA. May I ask if there is any officer or representative of the Chase National Bank who can give this committee all the salaries and bonuses that are now being paid by the Chase Bank to its officers—vice presidents and other officers? I think we put in a tabular statement last week. That is in the record as committee's Exhibit No. 7, of October 17, 1933. All right.

The CHAIRMAN. We will adjourn until 10 o'clock tomorrow morning.

(Whereupon at 4.30 p.m. Monday, Oct. 23, 1933, the subcommittee adjourned until 10 o'clock the following morning.)

COMMITTEE EXHIBIT No. 30

CUBA—MEMORANDUM TO MR. TINKER

MARCH 22, 1926.

On Saturday, March 20, Mr. Benard suggested that I see Tarafa promptly on Monday and point out the convenience to him, in an indirect way, of a prompt decision on the part of the Cuban Government as to this matter of financing. He called attention to the present unsatisfactory state of the security market and stated that whereas a substantial amount of securities could be absorbed at this time without difficulty, that a sudden change in market conditions is not improbable, in which case this financing might be rendered much more expensive, if not impossible. I stated that I would get in touch with Tarafa today.

On Sunday, March 21, about 3 o'clock in the afternoon, General Crowder approached Mrs. Graves at the Jockey Club, stating he was very anxious to see me at once. Upon learning that I was at the Country club, he immediately came there and sent for me on the golf links. He seemed to be much exercised. He stated that he had heard persistent rumors that Blair & Co. and the Chase Securities Corporation were attempting to negotiate a loan to the Cuban Government of 100 million dollars, and that in view of the fact that their indebtedness was already 98 million and the financial and economic condition of the country was in such a deplorable state, he found it very difficult to credit the above statement. He stated that the character of his information was such, however, that he could not disregard it and, as a matter of fact, Cespedes was supposed to present to him the proposed project today, Monday, March 22; that, as he understood it, they were attempting to make a loan to the Government but under another name, and that we all knew if any difficulty arose, the United States Government would be appealed to, to make Cuba comply with her engagements.

General Crowder stated that he and I had been friends for a long time and he thought it was only fair to tell me of the situation because as he saw it, it placed upon him the responsibility of making an immediate protest to the State Department in Washington. He called my attention to article 2 of the Platt amendment and further said that he supposed these people had secured advice from American lawyers who really were insufficiently acquainted with the proper construction of the Constitution of Cuba of which the Platt amendment was a part.

I pointed out to him that I represented neither Blair & Co. nor the Chase Securities, although both organizations were friendly with the Chase Bank; that any financial plans or discussions they may have had with the Cuban Government, were matters which I was not in a position to discuss. I told him that I would assume, however, the first thing any group of bankers would be sure of was that any plans they had would not run counter to the provisions of the Cuban constitution or the Platt amendment, and that I would presume that any such groups would not only have the best legal

advice from American lawyers but from the most outstanding legal talent in Cuba as well.

General Crowder said, you know, I believe in treating all American interests alike, to which I replied that I was well aware of this. He said that 2 or 3 years ago, representatives of Blair & Co. came to Cuba in an attempt to loan the Cuban Government \$40,000,000 but they did not call on him and they had not even had the courtesy of calling on him this time either.

I made no comment on these statements but told him that I would attempt to find out something about the situation that night and if I were successful, I would communicate with him as soon as I was in position to do so.

It was impossible to communicate with Mr. Benard as he had not returned from his fishing trip either Sunday night or Monday morning. I left word at the Hotel Sevilla that he should call me as soon as he arrived.

I communicated with Bustamante this morning regarding the whole situation and he was present during my conversation by long distance telephone with Mr. Freeman, at about 10 o'clock.

In view of the fact that General Crowder was to have the plans submitted to him today and he knows that Mr. Tinker and Mr. Benard had been here and that I had been with them, it would be foolish to pretend utter lack of knowledge of their interest in the public-works program, and in view of the fact that General Crowder expected to hear from me in some form, it was better I should communicate with him and tell him that Mr. Benard had not returned but I would get in touch with him immediately upon his arrival in Habana, so that he might explain to General Crowder any ideas they might have on the financing plan. Failing to do so, I expected to get into communication with Mr. Tinker during the course of the day and would let him know whatever Mr. Tinker wished to communicate to him.

In the presence of Dr. Bustamante, I called General Crowder this morning and told him I was unable to get in touch with Mr. Benard but would do so immediately on his arrival in Habana and would ask him to communicate with the general; failing this, I would talk with Mr. Tinker upon his arrival in New York and would tell him what Mr. Tinker had to say. The general expressed himself as extremely appreciative of my activities in the matter and his attitude showed distinctly less concern than it did yesterday and he appeared much more friendly and appreciative.

Pursuant to my arrangement with Mr. Benard, I had an interview with Colonel Tarafa today and explained to him the attitude of General Crowder. Tarafa said at once that, in his opinion, Cespedes would not submit the matter to Crowder and Crowder had tried to deceive me in this respect; that Cespedes was the last man in the Cabinet to submit anything to the American Government and if he were obliged to do so, he would certainly have it done by some other member of the Cabinet.

When I suggested to Tarafa the possibility that Crowder had secured his information from Field, former secret-service agent of the United States, a friend of Cespedes and who now does secret-service errands for Crowder, he stated that he was sure this was what had happened when Field had learned from Cespedes, in a general way, of the plan, and that he had given Crowder his own digest of the matter.

Tarafa stated that General Machado, Cespedes, and Cartaya were at this very moment (1:30 p.m.) in conference about the plan and that he had heard rumors that they were favorably impressed with it.

He again suggested that any information we wished to convey to Cespedes, or any discussions that might be had as to the plan, should go through Cortina rather than anybody else.

As to the probability of a change in the status of the security market which might hinder the contemplated flotation of these securities, Tarafa, in common with almost everybody in Cuba, is very greatly discouraged and felt that a change in the security market in the United States was a possibility, if not a probability, and that the Cuban Government ought to act quickly. Tarafa further stated that Powell had left for the United States on the boat this morning.

I talked with Mr. Tinker about 3:15 p.m., setting forth the above facts. He said that I should not communicate with Crowder again unless he called me,



in which case I was to tell him that Mr. Tinker had left for Florida last Thursday, and I was not sufficiently informed of his plans to be able to discuss them—that I should get in touch with Mr. Benard as soon as possible and turn the whole matter over to him, giving Mr. Tinker's opinion that it was not necessary to communicate our plans at the present time to Crowder, but to say that when the proper moment arrived a discussion would be had.

Although I have not kept a copy of this memorandum, I have given a copy to Mr. Benard and preserved a copy for Mr. Panthen, in order that he may know all I do in view of my contemplated absence from Cuba shortly.

I saw Mr. Benard about 4 p.m. He stated that he had talked with Mr. Tinker and agreed that I should not call Crowder, but in case I ran into him anywhere I should talk to him along the lines suggested by Mr. Tinker to me, and we agreed that I should say practically the same thing in regard to Mr. Benard, stating that Mr. Benard was a French subject and a French banker, and that he would be very glad indeed to pay his respects to General Crowder, but that he had not even called as yet on the French Minister.

I ran into Crowder about 9:30 p.m. at the country club. I told him exactly what had been agreed on by Mr. Tinker and Mr. Benard. Crowder seemed entirely satisfied and conveyed to me again that as yet he had not communicated with the State Department regarding this matter.

It is clear that the bank should preserve cordial relations with the United States Ambassador but, while not telling him anything that would damage our interests in Cuba, to be careful not to make any statements which, he might easily learn, were contrary to facts.

#### COMMITTEE'S EXHIBIT No. 33 OF OCTOBER 23, 1933

##### FINANCING PROPOSITION

HON. CARLOS MIGUEL DE CESPEDES,  
*Secretary of Public Works, City.*

SIR: The undersigned, a representative of the Chase National Bank of the City of New York, duly authorized as evidenced by the accompanying power of attorney executed before the notary of this city, Dr. Ramon J. Martinez Pedro, on September 24, 1925, under no. 199, states:

"That in accordance with the invitation extended by the Government for proposals to finance payments to contractors under agreements entered into pursuant to the Public Works Law up to a maximum aggregate limit of \$10,000,000, in accordance with the conditions set forth in the official statement of November 19, 1926, I take pleasure in submitting for your consideration the proposal set forth below, which is designed to meet the conditions of your Government as set forth in the official statement referred to."

##### PROPOSAL

The general terms and conditions of this proposal are as follows:

1. This proposal is not conditioned upon the acceptance by the Government of any particular construction contractor or contractors, the Government being entirely free thereunder to select such contractors for the work as it may consider proper. We assume, however, that the detailed provisions of the construction contracts will be made to harmonize and coordinate with the provisions of this proposal which are designed to effect the prompt payment to the contractors of the amounts due for the completion of the work.

2. The Government will, to such extent as it deems advisable, but not exceeding the maximum aggregate face amount below specified, from time to time during the 4-year period ending June 30, 1930, issue under such construction contracts entered into under the public-works law as it may determine, deferred-payment certificates covering work completed under such contracts. Such deferred-payment certificates shall certify that the Government will pay to the Chase National Bank of the city of New York as registered assignee or on its order, at the maturity date or dates therein specified which shall not be earlier than July 1, 1930, nor later than June 30, 1931, the face amount of such certificates not exceeding in the aggregate \$10,000,000, with interest at the rate of 6 percent per annum, calculated from the date of payment to the contractor,

as provided in paragraph 5 hereof, to the date of payment by the Government payable semiannually on such dates as the Government may determine and fix in the definitive agreement. The interest payable on such certificates is fixed at the rate aforesaid to cover all customary discounts. The principal and interest of such deferred-payment certificates are to be payable by the Government at its option either at our principal office, No. 57 Broadway, New York City, or at our Habana branch, in official gold dollars of the present standard, but if paid at our Habana branch the Government will add to the amount then payable the amount of any Cuban taxes payable by us in respect of the transfer of said funds to New York City.

3. The deferred-payment certificates are to be the irrevocable and incontestable contact obligations of the Government to pay the face amount thereof with interest at the respective due dates subject to no offsets or counter claims and are to constitute a first lien or charge upon the public-works fund created under the public-works law for the payment of the amounts due for principal and interest at the dates when the same shall become payable pursuant to the terms thereof.

4. All deferred-payment certificates issued under any construction contract entered into under the public-works law shall be issued in our name and shall be payable, principal and interest, to us or upon our order in place of the contractor under such contract and shall be registered as so payable at the Treasury Department of the Government. As we shall pay the face amount of any such deferred-payment certificates to the contractor entitled to receive the same, as provided in paragraph 5 of this proposal, the amount and date of such payment will be registered at the Treasury Department and the department of public works will likewise deliver to us, in duplicate, the corresponding works certificates as issued during construction.

5. We agree that upon presentation to us within the period of 4 fiscal years before mentioned, which end June 30, 1930, of deferred-payment certificates issued in accordance with this proposal and the definitive agreement to be entered into to give effect thereto, we will pay at our Habana branch to the contractor or contractors specified in such certificates the face amount thereof up to the maximum aggregate amount of \$10,000,000, such payment to be made at such time after receipt of any of such certificates as the Government may order.

6. As compensation for our commitment and services in this matter we are to receive for each fiscal year of the 4-year period above mentioned the following amounts:

For the first year an amount equal to  $1\frac{1}{2}$  percent of the maximum aggregate face amount of the deferred-payment certificates contemplated to be issued under this proposal payable upon the execution of the definitive agreement, and for each of the remaining 3 fiscal years of the said 4-year period an amount equal to 1 percent of said face amount of certificates payable on July 1 of each of said years.

7. In case the foregoing proposal should meet with the approval of the Government, we are to be notified of the Government's acceptance and approval before December 15, 1926.

8. If this proposal is accepted by your Government, the definitive agreement in form and substance satisfactory to your Government and to ourselves will be entered into by not later than January 15, 1927, for the purpose of proceeding to increase the requisite continuing security and giving effect to the detailed provisions essential to carry out the proposal.

9. All legal details in connection with said definitive agreement are to be carried out under the supervision and subject to the approval of our counsel, Dr. Antonio S. de Bustamante. In case this proposal is not accepted and such definitive arrangement is not entered into by the dates above mentioned or by such later dates as we may agree upon, all our obligations hereunder shall terminate and the security which we have deposited in order to comply with the conditions established, shall be returned to us.

10. In accordance with condition 10, for the financing of work, we accompany herewith our certified cashier's check for \$500,000 as well as a certificate from the secretary of the Habana clearing house showing us to be members of the same, and we agree to increase this amount to \$1,000,000 if we are awarded the financing on the closing of the definitive contract utilizing for

the total any of the forms of finance permitted under the conditions of this subasta.

11. Also, in compliance with the provisions of article II of the general conditions for all the contractors of the State, we submit herewith the receipt which shows our having paid the opening tax on industry chargeable to us.

Wherefore we ask you to please have this proposal presented with the accompanying documents and the declarations and offers which it contains to all legal effects.

Habana, the 30th of November, 1926.

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK,  
MARIO SEIGLIE, *Representative*.

Post office address: Aguiar no. 86, Habana.

Attached:

1. Power of attorney of bank.
2. Municipal tax receipt.
3. Receipt for profits tax.
4. Certified check for \$500,000.
5. Certification of the clearing house.



# STOCK EXCHANGE PRACTICES

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TUESDAY, OCTOBER 24, 1933

UNITED STATES SENATE,  
SUBCOMMITTEE OF THE COMMITTEE  
ON BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to adjournment on yesterday, at 10 a.m., in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher, presiding.

Present: Senators Fletcher (chairman), Gore (substitute for Barkley), Adams (proxy for Costigan), Townsend, Couzens, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel of the committee; and Frank J. Meehan, chief statistician to the committee; Martin Conboy for Albert T. Wiggin; Eldon Bisbee, Alfred E. Mudge, A. M. Williams, William Dean Embree, and A. Donald MacKinnon, of Milbank, Tweed, Hope & Webb, counsel for The Chase National Bank and the Chase Corporation. Joseph B. Lynch, Julian L. Hagen, and C. Horace Tuttle, of Rushmore, Bisbee & Stern, and also Albert G. Milbank.

The CHAIRMAN. The subcommittee will come to order, please. Mr. Pecora, you may proceed.

Mr. WILLIAMS. Mr. Chairman.

The CHAIRMAN. Mr. Williams.

Mr. WILLIAMS. At the session yesterday we were requested to produce advices of the State Department on the financing which took place in the fall of 1926; also the opinion of my firm as counsel in connection with the validity of that financing. Since that time we have received the papers from New York on the subject, and inasmuch as my partner, Mr. Mudge, handled the legal details of that financing on the ground in Habana, and also with the State Department in Washington, I ask your permission that he be permitted to make a statement of just what transpired, in order that you may have full and first-hand knowledge of what was done in connection with the Platt amendment and also in connection with the relations of the State Department to that financing.

The CHAIRMAN. Before you proceed, Mr. Mudge, the committee has decided to investigate the conditions in connection with closed banks in Cleveland and Detroit to ascertain their relations with the Federal Reserve banks and investment banking houses. I want to make that announcement now because we have had a number of inquiries about it.

Now, Mr. Mudge, if you will hold up your right hand and be sworn: You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth regarding the matters now under investigation by this committee. So help you God.

Mr. MUDGE. I do.

The CHAIRMAN. You may proceed.

**TESTIMONY OF ALFRED E. MUDGE, OF THE LAW FIRM OF RUSHMORE, BISBEE & STERN, NEW YORK CITY, COUNSEL FOR THE CHASE NATIONAL BANK**

Mr. MUDGE. I might say that——

Mr. PECORA. Just give your name and whom you represent.

Mr. MUDGE. My name is Alfred E. Mudge. I am a member of the firm of Rushmore, Bisbee & Stern, counsel for the Chase National Bank.

In order to develop the whole thing very briefly I ask your permission to explain one or two documents as I present them to you.

In November of 1926 I was in Habana in connection with the formulation of the final proposal which was submitted on behalf of The Chase National Bank on November 30, 1926, to the Cuban Government in connection with and in response to an invitation to submit competitive bids for that financing.

I actually drafted the proposal that was submitted at that time. That proposal was submitted on November 30, and published in the papers on that date or the date succeeding.

As soon as the proposal had been submitted a copy of it was delivered to General Crowder, the American Ambassador to Cuba. General Crowder had been frequently consulted with during the period of time immediately preceding the submission of that proposal. I personally conferred with him on several occasions. And during those conferences we had considerable discussion of the application of the Platt amendment to the type of financing that was embodied in the proposal we were submitting.

During that discussion it was pointed out by me that the type of financing we were submitting at that time did not involve what was commonly known as a public debt or a public bond issue. We were proposing a banking credit of \$10,000,000, to be represented by deferred-payment work certificates, which the bank discounted on presentation of those certificates by the contractors who had performed work on the highways. The theory was that the bank, as assignee of those deferred-payment work certificates took the place of the contractors in their position in reference to the Cuban Government.

During those discussions General Crowder said he thought it would be the policy of the State Department, notwithstanding the type of financing that was being proposed at the time, to initiate an investigation because of the fact that the Platt amendment, so called, is embodied in a treaty between the United States and Cuba, and because of the fact that the policy initiated under the administration of Secretary Knox went further than the mere letter of the amendment and laid down the general policy that in all important fiscal operations of Cuba the United States would take the position of

a sort of fiscal adviser or supervisor. He also stated that he expected he would be requested to make a study of the matter and report to his Government at Washington.

Shortly after November 30, the date our proposals were submitted, General Crowder told me that he had received a message from Washington which requested or asked him to make representations to the President of Cuba requesting the President of Cuba to suspend final action upon the award until an investigation could be made by the State Department to ascertain that the proposed financing was in all respects in accordance with the Platt amendment as embodied in the treaty between the United States and Cuba.

Shortly after being so advised I proceeded to Washington on my way back to New York. I arrived in Washington on the morning of December 6, 1926. I had an extended conference with Mr. Hackworth, who was then Solicitor of the State Department. I explained to him that my client, The Chase National Bank, had submitted a proposal for this financing; that I understood the State Department had initiated an investigation to see whether it complied in all respects with the Platt amendment; and that I had stopped on my way to New York to see whether there was any information that the bankers might supply that might be of aid and to discuss the matter generally with Mr. Hackworth.

I also conferred, at Mr. Hackworth's suggestion, with Mr. Baker, one of his assistants, on the same day. Mr. Baker was making a special study at the moment of the application of the Platt amendment and of the terms of the financing proposal.

I was told that the economic features of the proposal were also being discussed by Dr. Young, who was then economic adviser of the State Department. I accordingly saw him at the same time, and I believe I left with him, or with Mr. Hackworth, not only a copy of the proposal, but also certain financial data which had been compiled at the time and which showed an estimate of the revenues to be derived from the public-works taxes, and other data.

I then returned to New York, and on the following day, December 7, I prepared a memorandum of my interview with Mr. Hackworth and with Mr. Baker and with Dr. Young. I have here the original of that memorandum, signed by me on December 7, and which contains a correct statement, dictated at the time, of my conferences in Washington with the gentlemen named. With the permission of the committee I will offer this for the record.

The CHAIRMAN. Without objection it may be received.

(The memorandum of conferences on Monday, Dec. 6, 1926, was marked "Witness' Exhibit No. 35, Oct. 24, 1933", and will be found immediately following:)

WITNESS' EXHIBIT No. 35, OCTOBER 24, 1933

DECEMBER 7, 1926.

CUBAN HIGHWAYS LOAN, MEMORANDUM OF CONFERENCES OF MONDAY,  
DECEMBER 6, 1926

I conferred with Mr. Green H. Hackworth, explaining to him the substance of my talk with General Crowder, and impressing upon him the importance of reaching a conclusion on the matter as soon as possible. He stated he



appreciated the importance of prompt action, and that the matter was now being studied by Mr. Baker, his assistant, occupying room no. 16 on the main floor. He suggested that I speak to Mr. Baker. While I was there, he called up Mr. Baker explaining that I was in his room and the purpose of my visit, and arranged that I should talk with Mr. Baker.

While talking with Mr. Baker, Mr. Hackworth mentioned the cable that had been sent to General Crowder, asking him to make the representation to the President, and I gathered the impression that Mr. Baker mentioned to Mr. Hackworth that Dr. Young was familiar with or had seen the cable in question. At any rate, Mr. Hackworth suggested that it would be advisable for me to talk with Dr. Young also.

I went from Mr. Hackworth's office to Mr. Baker's office and went over the situation fully with him, discussing the matter generally, and in particular the question of what was meant by the term "general taxes" in the Platt amendment. I told him that I had a copy of the offer which Chase had made, and also a statement which I had prepared showing how it had been worked out. He said he was not very much concerned about details, as General Crowder had already submitted a report which would be entirely sufficient, on the working out of the financing. He suggested, however, that Dr. Young might be glad to have these papers, including the statement which I had prepared, and requested that I see him. I left Mr. Baker with the impression that he would find no difficulty in recommending that there would be no objection to the method of financing, and that he would also take prompt action.

I then visited Dr. Young, economic adviser of the State Department, and went over the situation fully with him. I left with him a copy of our proposal and also a copy of the statement I had worked out giving the effect to the financing and the receipt of the taxes. He told me he appreciated the importance of reaching a prompt conclusion and thanked me for going over the matter with him.

During my conference with Dr. Young, he reminded me that it would be necessary to give the State Department official notice of the conclusion of the definitive agreement in line with the circular which had been generally distributed to bankers and security houses. I told him that we had not as yet given any notice pursuant to this circular, as all we had done to date was to make an offer on the public invitation. I assured him, however, that we would give such notice prior to the making of the definitive agreement.

A. E. M.

Mr. MUDGE. Shall I proceed, or wait for you to read that memorandum, Mr. Pecora?

Mr. PECORA. You may go ahead.

The CHAIRMAN. You may proceed, Mr. Mudge.

Mr. MUDGE. While I was in Washington on December 6, 1926, I arranged with Mr. Charles Henry Butler, a Washington lawyer, who was one of the correspondents of our firm in Washington, to contact with the members of the State Department whom I have mentioned, to see whether we could be of any further aid in supplying data, and also to ascertain from time to time how soon we might expect advices as to the conclusion of the State Department.

Under date of December 13, 1926, a week following my conference with the officials of the State Department, I received a letter from Mr. Butler, the original of which I now present. If there is no objection, I request that it be put on the record.

The CHAIRMAN. Without objection that will be done. Did you have anything from the State Department itself?

Mr. MUDGE. I should like to read this letter first, Mr. Chairman.

The CHAIRMAN. All right.

(The letter from Charles Henry Butler-John A. Kratz to Rushmore, Bisbee & Stern, dated Dec. 13, 1926, was marked "Witness' Exhibit No. 36, Oct. 24, 1933", and will be found immediately following:)

WITNESS' EXHIBIT No. 36, OCTOBER 24, 1933

LAW OFFICES, CHARLES HENRY BUTLER, JOHN A. KRATZ,  
*Washington, D.C., December 13, 1926.*MESSRS. RUSHMORE, BISBEE & STERN,  
*New York, N.Y.*  
(Attention of Mr. Mudge.)

GENTLEMEN: We were informed by the State Department today, as our Mr. Butler telephoned your Mr. Mudge, that the American Government has notified the Cuban Government that it is raising no objection under the Platt amendment as to the method of Cuba's financing its internal improvements, and we were authorized to transmit that information forthwith to you.

We were requested to simultaneously state to you that the Department would appreciate it if you would notify them that you did propose to proceed under the draft proposition which you had already submitted to the Department, and to give the Department any further information that you could in regard to this transaction.

As you know, it is the present attitude of the Department for the sake of better protecting American financial interests abroad to keep itself advised of all the large financial transactions which are entered into between Americans and foreigners involving the placing of capital abroad.

We were told that the message had actually been transmitted to the Cuban Government through the American Ambassador in Habana before the message was received by us.

We expressed to the gentlemen having the matter in charge the appreciation of your office and ours that this matter had been expedited, for we know that the Department is really overwhelmed with business at the present time.

Your Mr. Mudge asked us to transmit a bill. We will send a memorandum of our disbursements for telegrams and telephones, and our Mr. Butler will be in New York in the course of the next few days and will give himself the pleasure of calling at your office, but please understand that the matter of compensation is entirely in your own hands and any amount that you suggest will be satisfactory to us, and believe us to be,

Yours very truly,

CHARLES HENRY BUTLER-JOHN A. KRATZ,  
By C. H. BUTLER.

MR. MUDGE. The letter which I have just mentioned and read to you brought forth this result. In compliance with the suggestion contained in that letter, indicating to us a desire on the part of the State Department officials, I sent in behalf of my client a letter dated February 15, 1927. That is the letter with which we transmitted to the State Department the definite agreements which had been finally prepared and were then ready for execution. That letter was offered in evidence, I believe, by Mr. Pecora at the hearing on yesterday.

In response to that letter, and under date of February 21, 1927, Assistant Secretary of the Department of State, Mr. Leland Harrison, wrote to the Chase National Bank referring to the letter I have just mentioned and advising that the State Department had no objection to the proposed \$10,000,000 financing.

Senator COUZENS. And that letter was put in our record on yesterday.

MR. MUDGE. That letter was put in the record on yesterday.

The CHAIRMAN. You may proceed.

MR. MUDGE. I believe under date of February 19 the definitive agreement was actually executed in Habana. That was after we had been definitely notified by the State Department, through Mr. Butler, that the State Department was entirely satisfied that the proposed financing complied in all respects with the Platt amendment. It was 2 days before we had actually received the final communication of February 21.

In connection with this financing I had made a careful study of the Platt amendment and its relationship to financing of this sort. I was aided very greatly by the numerous conferences I had with General Crowder in Habana. General Crowder, if you may recall, was quite a student, and he had the considerable contact with the Platt amendment, especially as a result of the \$50,000,000 loan which had been approved by the State Department, I think, in the summer of 1922. That was the loan to the Cuban Government.

SENATOR COUZENS. By whom was that loan made?

MR. MUDGE. J. P. Morgan & Co.

As a result of my study of the situation, and, of course, especially in reliance upon the fact that the State Department had made a careful and thorough investigation of the situation, the terms of the financing, the probable revenues of the Republic of Cuba, and had finally and definitely, as we were advised, communicated with the President of Cuba to the effect that the State Department was satisfied that the financing complied in all respects with the Platt amendment, I advised my clients to proceed with the consummation of the financing. That advice was not embodied in a written opinion but was given to them in connection with the conclusion of the matter. No formal written opinion was requested or required in connection with this particular financing, because, unlike the two succeeding types of financing, it did not involve a public offering but was simply a bank credit.

That, I think, to the best of my knowledge, is a complete statement of the relationship of my client to the consideration of the application of the Platt amendment to this financing, and although I have not had access to and know nothing of my own knowledge about what the State Department files may show—I feel certain that if you make inquiry in that direction you will find a series of telegrams or letters or communications between the Republic of Cuba and the State Department bearing upon this matter.

MR. PECORA. Are you through, Mr. Mudge, with your statement?

MR. MUDGE. Yes.

MR. PECORA. When did you first go to Habana in connection with this proposed financing?

MR. MUDGE. I think I was probably down there 4 or 5 weeks. I cannot recall. I know it was about that time.

MR. PECORA. When did you first go there?

MR. MUDGE. I should say 4 or 5 weeks before November 30, 1926. That was the date the proposal was submitted, and I left within a day or two afterward, because I arrived in Washington on December 6.

MR. PECORA. Were you charged with any special mission by your client in connection with that trip?

MR. MUDGE. Only the usual mission counsel generally carries going on a trip of that nature, to advise the client on the legal aspects of the problem, to prepare the legal documents, and handle the matter generally from a legal standpoint.

MR. PECORA. Had any legal question arisen up to that time with respect to the applicability of the Platt amendment to this proposed form of financing?

MR. MUDGE. I think we had considered it in a preliminary way, yes, sir.



Mr. PECORA. Had anybody raised the question specifically with your client?

Mr. MUDGE. Not to my knowledge.

Mr. PECORA. There is some evidence here, Mr. Mudge, introduced yesterday, that as far back as March 1926, and 6 or 8 months before you went to Cuba charged with this mission in behalf of your client, the question had specifically been raised by General Crowder with regard to the applicability of the Platt amendment to the carrying out of the public-works program that was authorized by the special enactment of July 13, 1925. Did you know of that?

Mr. MUDGE. I knew nothing of it.

Mr. PECORA. No one connected with your client, the Chase Bank, told you anything about that?

Mr. MUDGE. Nobody at all; and I assume, of course, the reason was that the financing which we were then proposing was of an entirely different character. As I say, the financing that we proposed was a credit operation. I believe, if my memory serves me correctly, that the memorandum referred to an external loan of upwards of \$100,000,000. I suppose that the matter was not considered, if it was in the minds of my clients at all, of any relevance.

Mr. PECORA. You knew this proposed financing with regard to these public-works certificates aggregating \$10,000,000, that actually was the subject of agreement between your client and the Cuban Government on February 19, 1927, had to do with a part of this public-works program authorized to be initiated by the act of July 13, 1925, did you not?

Mr. MUDGE. Surely.

Mr. PECORA. Did it occur to you that any part of that program, or the furtherance of it, might require the contracting of a debt that might be in violation of the Platt amendment?

Mr. MUDGE. I never thought that it would be in violation of the Platt amendment. I thought that the Platt amendment, because it was embodied in a treaty between the United States and Cuba, was a subject-matter which would have to be considered in connection with the proposal. As I have already stated, General Crowder in his numerous talks with me on the subject developed the idea that there had been a definite policy initiated and followed in the State Department to investigate, as a matter of policy, all financing of this sort. If you read the history of the various episodes in which the Platt amendment has been involved you will see the reason for that. If you will examine the notes from Secretary Knox, Secretary of State, to the Cuban administration in connection with the Zapata swamp deal you will see the reason for that policy, and it was pursuant to that policy that General Crowder told me, irrespective of the type of financing that was then under consideration, he was satisfied that the Department of State would insist upon an opportunity of checking up this financing, an opportunity of examining the fiscal position of Cuba at the moment, to see whether, in their judgment, there was any reason for representation and to be entirely satisfied that all provisions of the Platt amendment were complied with.

Mr. PECORA. Mr. Mudge, what were the essential features of the proposed financing that you went down to discuss in behalf of your

client with General Crowder, which caused it to differ from external financing?

Mr. MUDGE. External financing involves a general credit obligation of a Government, for the most part payable to bearer, bearing coupons, and circulating throughout the world almost like currency. The obligation that was embodied in the proposal we made was what is called a deferred-payment work certificate. It was made originally in the name of the contractor who had performed the work on the highways and who was entitled to receive the money. That contractor assigned it to the Chase National Bank, and it became, not a "bearer" obligation, but simply an obligation payable to the order of the Chase National Bank, and the theory upon which it was issued was that by virtue of that situation the Chase National Bank, having advanced the amount of the certificate to the contractor, became the assignee of the contractor or became subrogated to the rights of the contractor to receive the amount specified in the certificate from the Government.

Senator COUZENS. Did not subsequent financing diverge from that plan?

Mr. MUDGE. It diverged in some respects from that plan.

Senator COUZENS. When the divergence took place was the Platt amendment considered at that time?

Mr. MUDGE. Yes.

The CHAIRMAN. These certificates had to be signed by the minister of public works.

Mr. MUDGE. Yes, sir.

The CHAIRMAN. And the Secretary of the Treasury.

Mr. MUDGE. The engineer in charge of the work, I believe. I think also by the Secretary of Public Works or his representative, and I think by the Secretary of the Treasury. I am not certain as to the details.

The CHAIRMAN. Were they signed in that way before they were presented to the bank?

Mr. MUDGE. They were signed in that fashion and delivered to the contractor.

Mr. PECORA. Did they not represent——

Mr. MUDGE. The contractor then presented them to the bank, and the bank paid over to the contractor the amount called for in accordance with the certificate contained in the face of the instrument.

Mr. PECORA. Did not those deferred work payment certificates represent directly the obligation of the Government in favor of the contractors to whom they were originally issued?

Mr. MUDGE. I think they did, unquestionably.

Mr. PECORA. And to that extent represented public indebtedness.

Mr. MUDGE. They certainly represented an obligation of the Cuban Government.

Mr. PECORA. And, considered in that light, represented public indebtedness of the Government.

Mr. MUDGE. I do not think they represented the same type of indebtedness as is generally understood by the phrase "public loan" or "public bonds" or "public indebtedness."

Mr. PECORA. Regardless of the type, and regardless of terminology, did they not represent an indebtedness owed by the Cuban Government for work done, by way of construction of public improvements?

Mr. MUDGE. We certainly thought so when we took them.

Mr. PECORA. What did you think the Platt amendment related to, or, rather, let me put it this way. What do you regard as the essential principle of the Platt amendment?

Mr. MUDGE. As I have said, the history of the Platt amendment is contained in the various state documents that have considered it in its application to various situations that have developed from time to time. In connection with the Zapata swamp concession in Cuba, a controversy arose between the Cuban President and the State Department, as the result of which Secretary of State Knox sent to President Gomez a note—and these matters I am referring to are all matters of public record in the publications of the State Department. That note stated the rights of the American Government in the premises as a result of the treaty obligations between Cuba and the United States. The note called attention to the right of the Government of the United States, under article 3 of the treaty of 1903, which is one of the so-called "Platt amendments." Article 3 is the one which imposes the duty on the United States to maintain a stable government in Cuba.

Mr. PECORA. Could you confine yourself to that article?

Mr. MUDGE. I was just about to bring my observations on this point to a head by reading a portion of that note, and you will see its application to this particular problem.

Mr. PECORA. Go ahead.

Mr. MUDGE. This note called attention to the right of the Government of the United States, under article 3 of the Platt amendment, to intervene to maintain an adequate government in Cuba. This right—the note continued—and from now on I am quoting from the note [reading]:

entitles this Government to caution the Cuban Government against adopting an improvident or otherwise objectionable fiscal policy, on the ground that such policy might ultimately, either by itself or in connection with the general conditions in Cuba, produce a situation there requiring the United States to intervene for any of the purposes recited in this article.

Now, it was General Crowder's—

Senator COUZENS. Have you ended the quotation?

Mr. MUDGE. I have ended the quotation.

It was General Crowder's position that any important piece of financing of this nature, whether what you might call a "public debt" or a "public bond issue", or what looked to be more or less of a purely private or internal operation, was a matter in which the State Department must interest itself, from the point of view of the policy to which I have just referred, as contained in this communication from Secretary Knox.

That same policy was followed, I think, a year or two later, and it was also the policy followed in connection with the State Department's approval of the so-called "Morgan loan" of 1922, in connection with which, as you may recall, there were certain conditions imposed by the United States Government.

Mr. PECORA. The principle that you are referring to is a principle arising out of the provisions of article 3 of the so-called "Platt amendment", and that seemed to vest the United States Government with power to see to it that proper order was maintained in Cuba.



The portion of the Platt amendment that has come into question here, Mr. Mudge, is the one known as article 2, which I will read.

Mr. MUDGE. I am familiar with it.

Mr. PECORA. You are familiar with it. You know that it says that [reading]:

The said Government—

Meaning the Cuban Government.

shall not assume or contract any public debt to pay the interest upon which and to make reasonable sinking-fund provision for the ultimate discharge of which the ordinary revenue of the island of Cuba, after defraying the current expenses of the Government, shall be inadequate.

Would you confine yourself to that provision of the Platt amendment in your discussion of the applicability of it to this form of financing, with respect to which you went to Cuba at the behest of your clients in the latter part of 1926?

Mr. MUDGE. It was that feature of the matter that caused the Department of State to make a thorough examination of the financial situation of Cuba at the time, through Dr. Young, the economic adviser of the State Department, and also—in this respect I am informed by the communication of Mr. Butler—from a report that they expected to receive from General Crowder, who was on the ground.

General Crowder told me, before I left Cuba, that he expected he would be called upon to make a report, and he said he was thoroughly conversant with the situation, and had been down there some time, and he would be in a position to expedite such a report. He also told me that he was entirely satisfied that the economic situation was such at the time that there would be no difficulty in sustaining the financing from the standpoint of the adequacy of the revenues of Cuba.

Mr. PECORA. You have already said that these deferred-payment public-works certificates that were issued by the Cuban Government to the contractors for work already completed under this public-works program represented a form of public indebtedness.

Mr. MUDGE. I said I thought that they represented an indebtedness of the Cuban Government.

Mr. PECORA. That is another way of saying that they represented a public indebtedness, is it not?

Mr. MUDGE. I said I did not know that they represented—and in fact, I thought that they did not represent the type of public indebtedness that was probably intended to be covered by article 2 of the Platt amendment. But I went further—

Mr. PECORA. Did they, in your opinion, represent a public indebtedness?

Mr. MUDGE. They represented a contractual indebtedness of the Republic of Cuba.

Mr. PECORA. Is not that another definition for a public indebtedness?

Mr. MUDGE. I do not think it is synonymous with the term “public indebtedness” contained in article 2 of the Platt amendment.

Mr. PECORA. Did these certificates represent a debt payable by the Cuban Government?

Mr. MUDGE. They were an obligation of the Cuban Government to pay a definite amount on a special date, with interest.

Mr. PECORA. Are you using the term "obligation" in that answer as meaning something other than debt?

Mr. MUDGE. I would say that an obligation of that nature involved a debt of the Government. I would say that an obligation of that nature was not the type of obligation designated as a public debt in the Cuban Constitution and in the Platt amendment, but, Mr. Pecora, I have gone one step further in my presentation of the legal aspects of it, and I have said that, irrespective of the type of financing, irrespective of whether it was a public debt, or what you might call a private debt, the policy of the United States Government has been to assume jurisdiction, to examine into the whole question, to consider the adequacy of the revenues set aside for the service of the loan, and, after that stage, to advise the Cuban Government whether or not it had any point to raise under the Platt amendment. It has done that in connection with the Morgan loan of 1922, and it did it in connection with the Chase financing of 1927. It was only after it had made that thorough examination and come to that conclusion that I was willing to advise my client to go ahead.

Mr. PECORA. Had you given your client any opinion, either of a formal or informal character, with respect to the applicability of article 2 of the Platt amendment to this form of financing?

Mr. MUDGE. I had told my client that the Platt amendment would certainly have to be considered, and cleared with the State Department before they could go ahead. That was the purpose of my visit to Washington.

Mr. PECORA. It was also the purpose of your visit to Cuba before you went to Washington, was it not?

Mr. MUDGE. No; because I thought the Platt amendment centered in Washington because of the fact that it is embodied in the treaty between the United States and Cuba.

Mr. PECORA. Before you went to Washington—

Mr. MUDGE. The Cuban aspect of the constitution, which embodies the same language, was thoroughly covered by Dr. Bustamante. We relied, of course, upon the opinion of Dr. Bustamante in connection with Cuban constitutional matters.

Mr. PECORA. What is there in the opinion of Dr. Bustamante which devotes itself to a discussion of the applicability of the Platt amendment?

Mr. MUDGE. I do not think there is anything.

Mr. PECORA. Not a thing.

Mr. MUDGE. It was frequently discussed between himself and myself, and obviously, like most opinions of that sort, it expressed his conclusion as to the entire legality of the transaction, and did not express in detail the reasoning by which he arrived at that conclusion.

Mr. PECORA. Is it your experience that most opinions on such subjects merely express conclusions and not the reasoning upon which the conclusion is based?

Mr. MUDGE. That is my experience.

Mr. PECORA. Is there anything in the opinion itself which indicates that the question of the applicability of the Platt amendment was especially considered in reaching that conclusion?

Mr. MUDGE. Only the fact that the conclusion sustains the complete validity of the loan.

Mr. PECORA. Then it is merely an assumption that the Platt amendment is one of the things considered in reaching that conclusion.

Mr. MUDGE. It is not an assumption on my part, because I discussed the matter with him.

Mr. PECORA. With Dr. Bustamante?

Mr. MUDGE. With Dr. Bustamante.

Mr. PECORA. Did you discuss it with Dr. Bustamante in connection with your discussions of the subject with General Crowder?

Mr. MUDGE. Not in the presence of General Crowder, no.

Mr. PECORA. Is there in existence—

Mr. MUDGE. It was on the same trip.

Mr. PECORA. Is there in existence anywhere to your knowledge any opinion based upon a specific consideration of the applicability of the Platt amendment to the financing of this public works program or any part of it, whether that opinion was written by the Solicitor of the State Department, or by counsel for the Chase Bank, or by a representative of the Cuban Government, or by anybody whatsoever?

Mr. MUDGE. I assume you will find that thoroughly discussed in the files of the State Department.

Mr. PECORA. Have you any knowledge of any such opinion existing anywhere?

Mr. MUDGE. I have knowledge that on my visit to Washington the matter was being discussed and considered by the Solicitor of the State Department and by his assistant. I assume that as a result of their careful consideration of the matter they reached a conclusion, and possibly embodied that in a memorandum or opinion. I do not know.

Mr. PECORA. My question asked for any knowledge on your part of the existence of any such opinion.

Mr. MUDGE. I have no personal knowledge, but I assume that the circumstances I have given would lead to the assumption that there was such an opinion in the State Department's files.

Mr. PECORA. Upon what basis do you think, as an attorney, Mr. Mudge, the conclusion would rest that this particular type of financing that was entered into on February 19, 1927, is not in violation of the Platt amendment?

Mr. MUDGE. I would base it on the fact that the Department of State, in pursuance of the treaty obligations between Cuba and the United States, had made a careful study of the available revenues and had come to the conclusion that there was sufficient to pay the service of the proposed loan, and accordingly had advised the Cuban Government that so far as they were concerned there was no question involved under the Platt amendment.

I would assume, from the standpoint of the Cuban administration, looking at it solely from the standpoint of the constitution of Cuba, that they were satisfied that the available revenues were amply sufficient to pay the interest and amortization of the proposed financing, and were therefore within what is contemplated in article 2, if this particular type of financing was embodied in article 2. If it was not embodied in article 2, then, of course, article 2 has no application.



Mr. PECORA. Your answer, so far as I can understand it, Mr. Mudge, is, in substance, that you consider that this financing did not conflict with the Platt amendment, simply because somebody in the State Department, or somebody in the Cuban Government, reached that conclusion.

Mr. MUDGE. I reached that conclusion as a result of my own study of the matter, and I was naturally gratified that it was concurred in, or fortified by the fact that the State Department had reached the same conclusion.

Mr. PECORA. Am I to understand from that statement that you made an independent study or research into the question?

Mr. MUDGE. Yes, sir.

Mr. PECORA. And upon what basis did you reach the conclusion that that form of financing did not conflict with the Platt amendment?

Mr. MUDGE. I personally felt that the operation of 1927 was not a public debt, within the meaning of article 2; but whether or not it was a public debt, I knew that it was an important piece of financing for the Cuban Government, and I was convinced, as a result of the statistics and figures that were available at the time, that there was ample revenue in sight to take care of the service on the loan, and I did not go beyond that.

The CHAIRMAN. Did you study the question of revenue in general or "ordinary revenue"? Would you draw a distinction between the "revenues" and "ordinary revenues", as mentioned in that article?

Mr. MUDGE. I discussed that phase of the matter with the officials of the State Department.

The CHAIRMAN. But did you study the question of ordinary revenues, the amount of ordinary revenues to be applied to this debt?

Mr. MUDGE. I did, sir.

Mr. PECORA. Mr. Mudge, what kind of public debt do you think is referred to in article II of the Platt amendment?

Mr. MUDGE. Well, beyond any question, the public debt represented by the so-called "Morgan issue of 50 million dollars in 1932."

Mr. PECORA. You are aware of the fact that the language of the Platt amendment refers to any public debt?

Mr. MUDGE. I am.

Mr. PECORA. Those terms do not imply any limitation on the nature of public debt; do they?

Mr. MUDGE. Well, there is a good deal in the what you might call international relationship which bears on what is public debt and what is not public debt. I made a study of that, and I have references to the various situations in which it has arisen; in 1902, for example. There is a definite view on the subject that the term "public debt" generally speaking is supposed to represent a general credit obligation of the Government, or it may be in some instances a secured obligation of the Government in the form of bearer bonds with coupons attached circulating generally throughout the world. I think that that point of view is in contrast with what is frequently termed "private debt", sometimes an international obligation, which is the result sometimes of a complicated contract, sometimes of different situations which result in a private obligation.

My feeling was that this particular financing of 1927 was of a private nature and not a public matter, but—

Mr. PECORA (interposing). Mr. Mudge, are you not drawing a distinction between a public debt as such and a means for meeting a public debt when you speak of this particular type of financing not being in violation of the Platt amendment? I was not discussing any particular type of financing; I was devoting myself to the precise and specific question of what is or is not a public debt, regardless of the type of financing that might be adopted to meet it with. The question we are now discussing is whether or not these deferred payment public works certificates which have been issued by the Cuban Government to contractors for work done under this public works program authorized by the law of July 15, 1925, represented a public debt or indebtedness of the Cuban Government. Now, did they or did they not? Can't you answer that?

Mr. MUDGE. I think they represented an indebtedness of the Cuban Government.

Mr. PECORA. To that extent did they represent a public debt on the part of the Cuban Government?

Mr. MUDGE. From the standpoint of advising my client I said and I took the position that we had better consider these a public debt, because, obviously, we wanted to have the matter thoroughly covered by the investigation of the State Department, and we wanted of course to have the support of a conclusion by the State Department that all requirements of the Platt amendment had been complied with. Therefore, we did not concern ourselves with the technical distinction between a public debt and a private debt.

Mr. PECORA. Then you started out with either the assumption or the conclusion that these certificates represented a public debt, did you not?

Mr. MUDGE. We started out with the point of view that it would be wise and good judgment to proceed on the theory that they did represent or were equivalent to public debt.

Mr. PECORA. Did you ever thereafter depart from that conclusion?

Mr. MUDGE. No, sir.

Mr. PECORA. Then throughout they constituted in your mind a public debt on the part of the Republic of Cuba?

Mr. MUDGE. Well, of course, those did not last very long. They were superseded by obligations of an entirely different nature, of a quite different nature.

Mr. PECORA. I am talking about these certificates before they were superseded by anything else. Did they continue throughout to represent a public debt on the part of the Republic of Cuba?

Mr. MUDGE. They certainly represented a debt of the Republic of Cuba, and we continued throughout to regard them as a public debt.

Mr. PECORA. Now, if they represented a public debt, how were you able to reach a conclusion, if you did actually reach such a conclusion, that they did not represent that kind of public debt within the fair meaning and intendment of article II of the Platt amendment, which says that "said Government shall not assume or contract any public debt", and so forth?

Mr. MUDGE. On the assumption that they were a public debt and therefore came within article II of the Constitution, we concluded

that the situation was such at the time as to the anticipated revenues of the Republic as to comply in all respects with the provisions of that article.

Mr. PECORA. The provisions of that article refer to prohibition upon the Government and not assuming or contracting any public debt "where the ordinary revenues of the island of Cuba, after defraying current expenses of the Government, should prove inadequate to pay the interest and to make reasonable sinking fund provisions for their ultimate discharge"; isn't that so?

Mr. MUDGE. It is provided; yes.

Mr. PECORA. Now, if the ordinary revenues of the Island of Cuba, after defraying therefrom current governmental expenses, should have been inadequate to meet the interest charges on these public-works certificates and to allow provision for reasonable sinking fund requirements for their ultimate payment, would such portion of the public debt or would a public debt thereby created conflict with the Platt amendment in your opinion?

Mr. MUDGE. Not in the slightest.

Mr. PECORA. Not in the slightest?

Mr. MUDGE. The whole situation—

Mr. PECORA (interposing). Then what does the Platt amendment mean? Mr. Mudge? What does article II of the Platt amendment mean?

Mr. MUDGE. It means that at the time the obligation is incurred there must be in sight sufficient revenue to take care of the interest and of the sinking fund of the public debt. It does not mean—

Mr. PECORA (interposing). What kind of revenues?

Mr. MUDGE. The Constitution uses the expression "ordinary revenues." It does not mean that if whatever estimates are made at the time prove to be inadequate or wrong; the obligation is invalid or improperly contracted, because no one can foresee the future.

Mr. PECORA. As a matter of fact, when this public-works program was authorized by the law of 1925 didn't that law also create special revenues with which to meet the indebtedness?

Mr. MUDGE. It created special taxes and forms of revenues which in some cases were increases of taxation already existing. It simply allocated a commonly known type of taxation to the specific purposes set forth in the public works law. That did not mean that they were any less ordinary revenues within the contemplation of this particular provision.

Mr. PECORA. Were they not referred to throughout as special revenues or revenues specially created for the purpose of meeting the obligations which the Government would contract or assume in the furtherance of this public-works program?

Mr. MUDGE. I don't think so. I think they were referred to as taxes which were to be utilized for a special purpose.

Mr. PECORA. Haven't you found that, in correspondence or documents in the files of your own client, these revenues provided for by the Public Works Act of July 15, 1925, are referred to as special revenues, as distinguished from ordinary revenues?

Mr. MUDGE. I do not recall the phraseology.



Mr. PECORA. Then, you think that the adjective "ordinary" before the word "revenues" in the Platt amendment is just meaningless?

Mr. MUDGE. I do not think it has any particular significance. I discussed that phase of the matter, as I tried to explain, in my interview with the Solicitor General of the State Department, and I know that from what they told me at the time there was not any line of demarcation in their minds between what you refer to as "ordinary revenues" and what might be referred to as these taxes, increased taxes, paid into this special fund. We discussed that very question.

Mr. PECORA. Can you point to a single authority that you ever found, Mr. Mudge, which bears out your conclusion that the word "ordinary" as an adjective qualifying the noun "revenues" in this article II of the Platt amendment does not mean anything?

Mr. MUDGE. I do not know of any such authority bearing on the question. I think it is just a question of giving effect to what was the spirit and purpose of this amendment. That is the reason for the interview with the State Department.

Mr. PECORA. Don't you think that the original meaning and intentment of this amendment was that the Cuban Government was embarking upon an expenditure of public moneys that it could not meet out of ordinary revenues?

Mr. MUDGE. I do not think that there was any intent by the use of the term "ordinary revenues" to prevent the creation from time to time of new forms of taxation.

Mr. PECORA. Well, you know, of course, that the power of taxation is unlimited, don't you, where it is exercised as a sovereign power?

Mr. MUDGE. Fairly unlimited.

Mr. PECORA. Fairly unlimited. It may be exercised to the point of confiscation—an elementary principle, isn't it?

Mr. MUDGE. Well, I would not want to say that it can go too far, but generally speaking it is very broad.

Mr. PECORA. You know of the legal phrase that "the power to tax is the power to destroy", and that that arises from the fact that the power to tax is a power to tax to 100 percent, you might say.

Now if, as a matter of fact, the term "ordinary revenues", as embodied in the Platt amendment does not draw any distinction between revenues of usual character and the revenues that under the right to tax a Government may derive through the exercise of its unlimited power of taxation, then what was the sense of having any such provision in the amendment at all?

Senator COUZENS. I would like to ask Mr. Pecora in that connection, I think the whole discussion is unreasonable, in view of the fact that the gasoline tax was not known at that time, that the Platt amendment was agreed upon and it seems to me it would be ridiculous to freeze the Cuban Government to such an extent that it could not pass a gasoline tax to build roads. I think to interpret the word "ordinary" to exclude the Cuban Government from adopting a well-known tax in other countries would be absurd interpretation of the word "ordinary" in that amendment. I think we are wasting a lot of time.

Mr. PECORA. I want to see if the witness attaches any significance or meaning at all to the word "ordinary" as qualifying "revenues",

because, if it has no meaning at all, why, then, the Cuban Government could at any time pass laws imposing special revenues under its unlimited right to tax, and could thereby contract any kind of public debt and say, "Well, we will pay for it out of these revenues which we will create."

Senator COUZENS. It was all passed upon by the State Department, and that represents our Government. If they passed upon it I do not know why it could be considered as an extraordinary tax.

Mr. PECORA. I have not seen anything yet on that.

Senator COUZENS. I asked yesterday to have the file of the State Department to see what conclusion they reached, and I think we are wasting a lot of time in discussing it before we do see the record of the State Department.

The CHAIRMAN. I think it is a reasonable suggestion that we are taking up too much time in arguing this matter. We can argue it in executive session of the committee, but there is no need to argue it out here in these hearings. Let us go on and get the facts, and then we can discuss the facts when we get in session to consider what is developed at the hearings.

Mr. PECORA. I did not call Mr. Mudge as a witness. He is offered as the witness, and I thought we were going to get a copy of a written opinion submitted by him or his firm covering the whole legal question, but I see now that there was no written opinion rendered. The written opinion of Dr. Bustamante does not embark upon any discussion at all of the Platt amendment. It states a general conclusion.

The CHAIRMAN. I think we need not argue any more on it. Let us go on.

Mr. PECORA. All right. Then, I will continue with the examination of Mr. Geiger at the point where I left off yesterday.

#### **TESTIMONY OF ADAM K. GEIGER, SECOND VICE PRESIDENT OF THE CHASE NATIONAL BANK—Resumed**

Mr. PECORA. Now, Mr. Geiger, at the time that your examination yesterday was suspended I asked you concerning certain statements embodied in a letter addressed to Mr. Joseph Rovensky, vice president of the Chase National Bank, by Mr. Bruce under date of February 23, 1931. I show you what purports to be a photostatic reproduction of such a letter. Will you kindly look at it and tell us if it is a true and correct copy of the letter in question?

Mr. GEIGER (after examining document). It is.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted in evidence and entered on the record.

(Letter dated February 23, 1931, to Joseph Rovensky from James Bruce was thereupon designated "Committee Exhibit No. 37, October 24, 1933.")

Mr. PECORA. I will read the letter for the information of the committee, because of its importance. It is dated February 23, 1931. [Reading:]

Mr. JOSEPH ROVENSKY.

*Vice President, Chase National Bank, New York City.*

DEAR JOE: I am sending this letter to you. I would appreciate it if you would have copies made of information which different officers in the bank will be interested in and send same to Messrs. McHugh, McCain, Aldrich, Schmidlapp, Freeman, Charles Smith, Campbell, and Eddy.

Mr. GEIGOR. The name is Sherrill Smith.

Mr. PECORA (continuing reading):

First of all, one of the things we should do in Habana is to have a secretary there that we can write letters with; and my suspicions may be unfounded, but I think that any communications made from the office at the moment are known at the palace before they are known in New York.

To start first with the banking under Rosenthal, he is doing a fine job and has really not made one mistake since he has been there. He has collected a lot of loans which looked very precarious and he has not made any new loans except on proper securities, with the proper margins, and has increased the operating efficiency of the bank very much. The first 6 months of last year, before he came there, I forget just what the figure was, but I think that the branch ran in red about \$25,000, whereas for the first 6 months of this year it will run in the black somewhere between \$60,000 and \$70,000.

With regard to further write-offs, I do not believe that the head office will have to appropriate any more money for this branch. The figures have not changed much since they were first made last summer. On January 1 we appropriated \$300,000. This leaves on ordinary accounts about \$200,000 still to write off. As against this we have made a settlement which had already been written off against Larea which will net us about \$70,000, leaving a balance to be retained of \$130,000. This I think the branch can do out of earnings. The above, however, does not take into consideration any loss that we might have in the following items:

1. Central Habana.

2. Garcia Beltran.

With regard to this letter, when I was in Habana they offered \$65,000 of the new Cuban Government sugar bonds in place of a \$50,000 payment that they were to make on their loan, and we took the same, as it was a question of that or nothing. Although their indebtedness is higher, I figured that our risk on them is now down to about \$380,000, and it may be that we shall have good enough luck to get out, but it is very hard to tell.

3. The interests of the President: The President's personal loan is now \$130,000, and he promises to pay it off within 30 days. I should doubt very much whether he does this.

The loan of Mistre Machado is now about \$45,000 unsecured. We had a proposition from them stating that they would pay this off if we would loan them \$145,000 on Cuban internal government bonds at market value without margin. We decided that we would rather take our chances on losing \$45,000 than to put up an additional \$100,000 in unmarketable securities, so this item remains the same.

With regard to the shoe factory belonging to the President, when Rosenthal took over the office this loan was altogether \$89,000, and he has reduced the same to \$9,000. Undoubtedly, in my opinion, if this had been allowed to run along for a year or two the same would have been a total loss. You are familiar, of course, with the transaction by which Sherrill and Rosenthal collected \$200,000 from Cespedes, as I think this should have also been eventually a loss, and collection was really the best single thing that has been done for the bank this year.

In view of all the above, it seems to me our worries are pretty well over as regards the branch, and the great day for the same was the day you found Rosenthal and sent him down there, because he has handled things most intelligently and in my opinion is away above all the other fellows running branches in Habana, certainly of those that I know, and I know all of them except the fellow running the branch for First National.

To touch for a moment on Obregon.

By the way, Mr. Geiger, who was this Obregon that is referred to in this letter?

Mr. GEIGER. I think that was Jose Obregon, an employee of the bank.



Mr. PECORA. Is that all you know about him, about his identity?

Mr. GEIGER. That is all you asked.

Mr. PECORA. I asked you who he was.

Mr. GEIGER. He is a son-in-law of President Machado.

Mr. PECORA. All right. [Continuing reading:]

As we know, from any business standpoint he is perfectly useless—

[Laughter.]

He has neither any ability for banking, nor has he the slightest ability in negotiating, which was something which we thought it might be possible to build him up to do. The only use that Joe has would be to do a certain amount of entertaining of our more important customers when they come to Habana in the winter, and also to do a certain amount of contact with regard to new business, etc. This latter of course can be much better done by Lopez. From what I could gather in listening to some of the Cubans' talk is that Joe has very little standing with the President, and I think this is probably true. On the other hand, where the rub comes in is that if we did not pay him his salary the President would have to give him an allowance—

[Laughter.]

and in times as hard as these this might be fairly difficult to do, so it would seem to me that the best thing to do at the moment would be to let things go on as they are.

Rosenthal is very much concerned because he says that when he goes off on his vacation in the summer that if Obregon is next in charge he will make all the bad loans all over again, and Rosenthal is very anxious to get a second man and would like to have a fellow who is now with Kemmerer and will be back on the 1st of April. I do not believe that Findley would be a good second man, although he is a very hard worker and an excellent bank man. I think that we should find some other place for Findley where his services would be valuable. Obregon spoke to me about his position and he is evidently quite worried. Conditions have entirely changed with him in one respect, and that is that he is not threatening to resign but is very scared that he is going to be fired. This is naturally of course the best way to have him, as he can do the least harm.

[Laughter.]

Referring to the financing, I probably could have gotten through as fast if I had come a week later, because the first week of my stay was given over to collecting the data on figures and getting the legal opinion. Cartaya was sick for 4 or 5 days and could not give his opinion on this account, which rather delayed things.

First of all I saw the Ambassador and he thought that the renewal should be for 60 days. I told him that we had thought that a renewal for 60 days would be undignified and that the same had better be for 6 months in accordance with the wishes of the President. He said that he was trying very hard to have the President balance his budget, that the same had been reduced from 77 million to 67 million and that the President had promised him to further reduce it to 60 million. Furthermore, the President said that he would receive 10 million from the new taxes. The question was as to whether it was not in our interest to keep as tight a hold as we could on the fiscal policies of Cuba. With this in mind, I had a talk with the President along the following lines:

First, we agreed to renew the \$20,000,000 for 90 days. I told him that it was most important from our standpoint that he carried out the reduction in the budget and put his house in order financially, and furthermore that it was most important, both from his standpoint and from ours, that he went right to work to reestablish the credit of Cuba on a better basis than it now was. This of course could only be done by making a compromise with his political enemies, and naturally the only way he could do this was to make some concessions, but the result of which would be that Cuba would present a uniform front rather than have the tourist trade disrupted and the security holders made nervous by not knowing when, if at all, the Government would be thrown out of power. The President admitted all this, and in fact went on to elongate on the same, stating what he was doing to bring it all

about. He mentioned that in this last Congress there were one or two dissenting voices, but he said that in the Congress which would convene on April 1 there would not be one dissenting voice (I suppose the two dissenting voices are already in jail).

[Laughter.]

I also told the President that we held ourselves at his service at all times to give him any confidential advice which he might require as regards his financial affairs and particularly with regard to the construction of a tax system which would give some sort of strength and stability to the country and which would not be the hit and miss affair which they now have.

I also stated that we felt that we should keep more closely in touch with the fiscal affairs of the Government, and that in addition to the information which we got on the general budget and on the public-works revenues there was various other information which we would like to have each month. He said that he would be very glad to give us this. I had in mind especially trying to keep up with the cash position. Altogether the President was extremely satisfied with everything except one. He is very hard up for a million and a half dollars, and he wanted to know if we would loan him \$1,300,000 of this amount. I told him it was a matter which I would have to take up with my associates on my return to New York, as I did not feel that it should be discussed on the telephone. Naturally I don't think that we should make the loan, but as it was brought up quite unexpectedly in the sense that we had already indicated our unwillingness to do this, and I did not think that the President would mention it, but I did, however, go so far as to find out what the best terms would be.

To explain: We have in the Habana branch approximately \$240,000 of money advanced to various local contractors, which is not covered by bonds similar to the Warren Brothers bonds. I think this money is in considerable jeopardy. I therefore asked the President if, in the event that this was favorably considered, whether he would pay off those particular contractors and substitute Warren Brothers bonds for the amount due us. He said that he would do that. I then asked him the length of time that he wanted, and he said that he would like to borrow the money until the public financing was done. I said that this was a matter that we could not even consider, but wondered if it would be possible for him to pay the same at the rate of \$100,000 a month. He said that he could do this. I told him then that I would discuss the matter when I got back to New York. In the meantime, in turning it over in my mind and so that we can all consider it, it would seem to me that it might be a good trade to loan the Government \$500,000 to be secured by Warren Brothers bonds on condition that they would secure our present loan to the contractors, also to make this re-paper at the rate of, say, \$50,000 a month. In this way I think we would turn a bad loan into a good one without putting up any great amount of additional money. I think that at the moment the President is so hard up that he will jump at anything which looks like additional cash. In this regard, Henry Catlin arrived on the scene just 2 days before I left, and although I have no particular objection to Henry personally, he would have complicated my position very much had I remained, because he runs in and out of the palace every little while and is trying to get his own taxes reduced, and would be delighted to play Lady Bountiful with the funds of the Chase Bank. Another thing is that, although Henry is on our advisory committee, it is impossible to talk frankly with him, as you know what you say will be repeated in the palace.

He told me, which I think is entirely true, that the President is desperately in need of the money for the Government, and that it was most important for us to put up \$1,500,000. In fact, he had at least 10 very good reasons why we should do this. He stated, among other things, that the \$30,000 which the President borrowed from us in his private account he loaned to the Government.

In this connection a matter which is most important and which I could not touch on over the telephone, except very slightly to Mr. Eddy, is the fact that the President had practically gotten to the bottom of the trust fund, which of course he had no business in using. These funds are down in the neighborhood of approximately \$3,000,000, and they should be around \$12,000,000. This money will have to be replaced at some time, as the chief trust fund is a pension fund, although there are various others which I have sent to you with other data. Naturally, the public do not know about this, although why they

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should not get on to it I do not know, but it is worrying both the President and our own State Department very much. Another serious thing at the moment is that the Government, although it shows very substantial cash balances on the third of each month, actually has not at any time over a few hundred thousand dollars cash on hand, which is an absurdly small amount to run a government on, and what they do so that they can still make an honest statement is to hold up all voucher checks and payments of every sort until the day following the day that they make their statement with regard to their cash on hand, so that, although the cash presents a substantial sum one day, it is all gone within a day or two and has to be built up again during the course of the month.

The President, in the last tax law, inserted a clause to the effect that he should have power to sell short-term Treasury notes. Of course nothing could be worse than for him to have this power, and the State Department have realized this, and I do not think that he will be allowed to issue the same. This would even be worse than the establishment of a central bank, which is not only impracticable but impossible. Of course, they would want to start at once and it would not last long, because they would vitiate any currency they had as fast as the printing presses would work, but it would be a very unfortunate thing for us and for everyone else interested in Cuba. Mr. Schmidlapp called me on the phone about this, and I told him that we would send a cable back which Mr. Rosenthal had sent to you after an investigation. I saw one of the fellows on the economic committee that afternoon that recommended this, and I asked him why he wanted to give publicity to such a silly thing as that, and he said that the President had formed his commission and had given \$25,000 to make an investigation of the fiscal policies of the Government, and that they felt that they had to earn the money and had thought this up as a new idea that had not been thought of before, and they wanted to show the President that their minds were active but that of course they realized that it was impossible to start a central bank if you did not have any gold reserve. I asked the President about it and he just laughed and said it was impossible.

One thing that the President would like to do and which is very near his heart, which of course is impossible, but what he will probably talk about before long, is a consolidation of the whole national debt. The whole debt, external, internal, and floating, is about \$184,000,000, which is not excessive, and probably at sometime when the credit of the country is better this might not be a bad thing to do. I told him that in my opinion the combination of the unsatisfactory condition of our own security markets, plus the bad credit position of the Cuban Government, would make consideration of this hardly worth while at the moment. He agreed to this but said that he would like to bring things about where we could do it for him in about a year. I told him that we would be delighted to give it our consideration when the time was ripe for the same.

With regard to the lawyers, I think both sets of them are happy, and we did the right thing in taking the opinion of Bustamante, as his was the most cautious and conservative one. Cartaya was in a perfectly happy frame of mind about it, and in fact when I left everything seemed to be settled to the satisfaction of everyone, including the President, who went on a 4-day fishing trip. So there was really practically nothing that I could have done by remaining. If anything does come up, Rosenthal is perfectly competent to handle it. In fact, he has quite a keen mind for negotiating, and I think that if the Chase Securities would use him as freely as we do in the bank they would be very much satisfied with his work and cooperation.

I am coming up by motor and thought I would stop an hour or two to see Mr. Wiggin tomorrow, and will send you a telegram where I will be each afternoon so that if anything comes up that you want to get in touch with me you will know where to find me.

With best regards, I am

Yours sincerely,

JAMES BRUCE.

Senator COUZENS. Where is Mr. Bruce now?

Mr. GEIGER. I am not sure where he is at the present moment. He is not an officer of the Chase National Bank.

Senator COUZENS. Do you know where he is employed?

Mr. GEIGER. I do.



Senator COUZENS. Where?

Mr. GEIGER. He is an adviser or financial adviser, and I am not sure which, to the Home Owners Loan Corporation.

The CHAIRMAN. Here in Washington?

Mr. GEIGER. Yes, sir.

Senator COUZENS. Where is Mr. Findley?

Mr. GEIGER. In the Havana office of the Chase National Bank.

Senator COUZENS. Wasn't there a Mr. Lindsay referred to here on yesterday?

Mr. GEIGER. I do not recall it. There was a Mr. Lindsay in Blair & Co.

Senator COUZENS. Do you know where he is employed now?

Mr. GEIGER. I am informed that he is with the same corporation.

Senator COUZENS. That he is with the Home Owners Loan Corporation also?

Mr. GEIGER. Yes, sir; at least I am so informed.

Mr. PECORA. Now, Mr. Geiger, I am trying to recall whether or not you testified yesterday that when you prepared that memorandum for Mr. Callahan and Mr. McKee, dated January 21, 1932, you had knowledge of the existence of this letter that has just been put in evidence?

Mr. GEIGER. I testified at one point yesterday, and I am not certain whether that was the point or not, that I could not recall the exact date when I first had knowledge of this particular letter.

Mr. PECORA. You said you could not recall whether or not you had knowledge of it prior to 4 or 5 weeks ago, when you assisted Mr. Morgan in making a special study of the subject of these Cuban loans.

Mr. GEIGER. I think I stated that I specifically saw it then, but that I was not sure whether I had seen it prior to that time or not.

Mr. PECORA. Would you still say that the Chase interests did not use any intermediaries in their endeavors to secure this financing business in Cuba?

Mr. GEIGER. I would.

Mr. PECORA. Catlin was not such an intermediary?

Mr. GEIGER. I would not so consider him.

Mr. PECORA. Was he used at all?

Mr. GEIGER. He was used a great deal.

Mr. PECORA. For what purposes?

Mr. GEIGER. Consultation with our counsel.

Mr. PECORA. What was that?

Mr. GEIGER. In consultation with our counsel.

Mr. PECORA. Well, in connection with what kind of matters?

Mr. GEIGER. When the bank first went into Cuba, as I testified yesterday, our counsel felt that it was quite important they have someone there with whom they could discuss legal matters and personalities. Mr. Catlin was a lawyer. He was an excellent Spanish student, and he knew procedures and personalities.

Mr. PECORA. Well, it was developed yesterday that the bank paid him \$55,000 for legal services in connection with this financing.

Mr. GEIGER. The bank paid Mr. Catlin \$15,000 in connection with the 1927 financing.

Mr. PECORA. Well, that was the \$10,000,000 loan or credit?

Mr. GEIGER. Yes, sir.

Mr. PECORA. And then it paid him a balance of \$40,000, in connection with the two subsequent pieces of financing, didn't it?

Mr. GEIGER. It paid him \$20,000 in connection with the second, and another \$20,000 in connection with the third.

Mr. PECORA. Just what services did he render in connection with this financing?

Mr. GEIGER. I am informed that our counsel thinks that that fee to him was very reasonable.

Mr. PECORA. But my question to you was "What services did Mr. Catlin render?"

Mr. GEIGER. He discussed procedure, legal matters, personalities, worked with our counsel in preparation of papers, translation of documents, translation of English documents into Spanish documents. He checked Spanish documents. And I am informed that at one time he checked all the notarial copy before signature and actually made some changes in it.

Mr. PECORA. Have you a statement in your files of the services rendered by him?

Mr. GEIGER. I have not.

Mr. PECORA. Did you ever see any such statements?

Mr. GEIGER. No, sir.

Mr. PECORA. Did the bank make any loans to Catlin which were unpaid?

Mr. GEIGER. I think they did.

Mr. PECORA. Have you a statement of them?

Mr. GEIGER. With the permission of the committee I should like to read this statement in the record.

Senator COUZENS. A statement of what?

Mr. GEIGER. Of the loans to Mr. Catlin.

The CHAIRMAN. Does that include the corporations also that Mr. Catlin was interested in?

Mr. GEIGER. I do not know that he was interested in any corporation, Mr. Chairman. I do not know about that.

The CHAIRMAN. You may go ahead.

Mr. GEIGER. I now read as follows:

Mr. Catlin did not have any loans with our Habana branch. He carried a deposit account with that branch, which ran into an overdraft in 1928 of \$8,728.97 on September 30 of that year; the overdraft was gradually increased until it stood at \$46,029.38 on December 31, 1928. It was reduced through a deposit of \$25,000 on January 3, 1929, and was then gradually increased to \$52,634.54 on December 3, 1929. It was reduced by \$7,000 on March 15, 1930, and then gradually increased to \$54,338.39 on March 14, 1930. Thereafter there was no movement in the account. When he died, on September 27, 1932, the overdraft was still on the books of the Habana branch. Interest was charged at the rate of 5 percent on the account.

During all of the period which the overdraft has been on the books of the Habana branch there has been a loan secured by collateral in the name of Henry W. Catlin at the main office. When the overdraft was first availed of in Habana Mr. Catlin had in excess of \$250,000 margin on his collateral loan of approximately \$180,000 with the main office. During 1929 until October, when the break in the market occurred, Mr. Catlin's loan with the main office was secured by collateral which provided a margin more than ample to cover the overdraft in the Habana branch.

Senator GORE (interposing). How much was the overdraft at the end?

Mr. PECORA. It was over \$54,000.

Mr. GEIGER. It varied, Senator Gore. On March 14, 1930, it was \$54,000.

Senator GORE. All right.

Senator COUZENS. Was the overdraft carried because of the surplus security he had at the home office?

Mr. GEIGER. I presume so.

The CHAIRMAN. All right. You may proceed.

Mr. GEIGER. I continue reading, as follows:

Due to the sharp decline in security values in October, 1929 and thereafter, the margin on the collateral loan at the main office was wiped out and after that date it was not possible to secure satisfactory collateral from Mr. Catlin to protect the overdraft in Habana.

The following are the details of borrowings from the main office: On December 31, 1928, his loan at main office stood at \$181,877, secured by sundry stocks and bonds having a market valuation of approximately \$447,180. This loan was paid on January 28, 1929. On the same day, January 28, 1929, a loan of \$240,000 was made to him at main office secured by sundry stocks and bonds having a valuation of approximately \$337,000, due April 29, 1929. This loan was increased from the original amount of \$240,000 to \$351,623.89 and on May 4, as of April 29, 1929, was renewed to July 29, 1929. On May 4 the value of the sundry stocks and bonds pledged as collateral was approximately \$510,000. The loan was renewed on demand on August 14 in the amount of \$427,351.39 secured by stocks and bonds having a valuation of approximately \$794,000. It was increased on various dates, reaching a high point on October 22, 1929, of \$766,229.33, secured by sundry stocks and bonds having a valuation of approximately \$937,340, included in which were 950 shares Gillette & Co. 6-percent preferred stock, on which we were unable to obtain a quote but which we carried on our records at \$95,000.

On December 31, 1929, the amount of the loan was \$399,434.97, secured by sundry stocks and bonds having a valuation of \$323,970, which includes 1,000 shares of Gillette & Co. 6 percent preferred stock, which we carried at \$100,000. On October 28, 1930, this loan was reduced by \$200,000 and we made him a time loan for a like amount secured by a bond and mortgage for \$200,000 covering property in Kent County, Md. This note was due January 26, 1931, and was subsequently increased to \$203,137.13. The present status of the loan is: Demand loan \$188,839.07, secured by sundry stocks and bonds having a valuation of approximately \$37,000 and 1,000 shares Gillette & Co. 6 percent cumulative preferred stock, which is carried on the books at no value. Loan \$203,137.13, secured by bond and mortgage for \$200,000 covering property in Kent County, Md.

Mr. PECORA. And he died last September, I believe you said?

Mr. GEIGER. In September of 1932 I believe was the date.

The CHAIRMAN. He was president of a Santiago electric company, wasn't he?

Mr. GEIGER. I understand at one time he was.

The CHAIRMAN. And Machado was vice president?

Mr. GEIGER. Prior to his election as President of Cuba; yes.

The CHAIRMAN. And that was some of the stock that was put up as collateral, I mean stock of that electric company, wasn't it?

Mr. GEIGER. No, Mr. Chairman.

The CHAIRMAN. I thought you said there was some electric stock.

Mr. PECORA. No; it was Gillette stock.

Mr. GEIGER. Yes, Mr. Chairman, Gillette stock.

Mr. PECORA. Do you know anything about the real property in Kent County, Md., upon which a mortgage was given for \$200,000 to secure a loan of two hundred and three odd thousand dollars?

Mr. GEIGER. I do not; no.

Mr. PECORA. Now, how long did this overdraft of \$54,000-plus continue?



Mr. GEIGER. It varied, as I pointed out in my statement. In 1928 it was \$8,700. At the end of 1928 it had increased to \$46,000. The amount of \$54,000 was reached in March of 1930. The overdraft was on the books of the Habana office at the time Mr. Catlin died.

Mr. PECORA. That is, it had never been cleared up?

Mr. GEIGER. It had not.

Mr. PECORA. Now, according to the statement from which you have read concerning the Catlin loan account, this overdraft amounted to the sum of \$52,634.54 on December 3, 1929, and remained at that figure until it was reduced by \$7,000 on March 15, 1930. Is that the correct date, March 15, 1930?

Mr. GEIGER. I assume it is; yes, sir.

Mr. PECORA. Well, then, you said it gradually increased to \$54,338.39 on March 14, 1930.

Mr. GEIGER. Well, there is certainly a contradiction in dates there.

Mr. PECORA. What are the correct dates?

Mr. GEIGER. I am informed that that should read "and stood at" \$54,000.

Mr. PECORA. Now, while he had this overdraft against him of over \$50,000, did the bank make payment to him of moneys on account of legal services that he claimed he rendered?

Mr. GEIGER. I think they did.

Mr. PECORA. And that payment was made in cash?

Mr. GEIGER. My impression is that it was by check.

Mr. PECORA. Why didn't the bank deduct the amount of his bill for legal services against that overdraft or at least apply it to a reduction of his overdraft?

Mr. GEIGER. You will notice that they had quite an excess of collateral over the loan period.

Mr. PECORA. But this payment was made in March of 1930, when you say there wasn't such an excess of collateral over the amount of the loan.

Mr. GEIGER. The reduction, Mr. Pecora, in the debt of that date was part of the payment—

Mr. PECORA. (interposing). What was that?

Mr. GEIGER. The reduction of his overdraft on that date was part payment, which was made to Mr. Catlin.

Mr. PECORA. Well, that reduction was only the amount of \$7,000.

Mr. GEIGER. Yes, sir.

Mr. PECORA. And you paid him \$20,000.

Mr. GEIGER. Yes, sir.

Mr. PECORA. So he got \$13,000 in actual payment?

Mr. GEIGER. Yes, sir.

Mr. PECORA. Why wasn't the entire \$20,000 set off against his overdraft?

Mr. GEIGER. I don't know.

The CHAIRMAN. Has his estate been settled up?

Mr. GEIGER. I think not, Mr. Chairman.

Mr. PECORA. At the time that the bank paid Catlin for legal services in connection with the first financing; that is, the \$10,000,000 credit; he received \$15,000 for such services.

Mr. GEIGER. Yes, sir.

Mr. PECORA. Dr. Bustamante also received payment of \$15,000 for legal services, did he not?

Mr. GEIGER. I think that is correct [after conferring with an associate]. Mr. Pecora, my attention is called to the fact that on May 1, 1930, Mr. Catlin had a cash balance on deposit in the New York office of the bank of \$398,559.97.

Mr. PECORA. Did he also have a loan at the bank at that time?

Mr. GEIGER. He apparently did.

Mr. PECORA. Of how much?

Mr. GEIGER. I cannot give you the exact amount of that specifically, on that specific date, but certainly on December 31, 1929, it was \$399,000; and on October 28, 1930, it was reduced \$200,000.

Mr. PECORA. I asked you about Dr. Bustamante.

Mr. GEIGER. I am looking that up. I was interrupted [after conferring with an associate]. Mr. Pecora, before answering your question on the legal fee, allow me to withdraw the statement regarding the cash balance. That was the balance of his loan on that date. That was not a cash balance on deposit.

The answer to your question regarding the legal fee is that Dr. Antonio De Bustamante had a fee of \$15,000.

Mr. PECORA. With regard to the second piece of financing, involving a credit of \$60,000,000, Catlin received a \$20,000 fee there?

Mr. GEIGER. A \$20,000 fee.

Mr. PECORA. Dr. Bustamante also received a fee for legal services, did he not?

Mr. GEIGER. I think so. I will verify that.

Mr. PECORA. Look at exhibit no. 56-16, and you will find it.

Mr. GEIGER. Dr. Bustamante, \$10,000.

Mr. PECORA. Now, Rushmore, Bisbee & Stern received a substantial fee also for legal services in connection with that second piece of financing, did they not?

Mr. GEIGER. Yes.

Mr. PECORA. Who is the Dr. Enrique Hernandez Cartaya who received a fee of \$47,500 for legal services in connection with the second piece of financing?

Mr. GEIGER. He is a Cuban attorney.

Mr. PECORA. Is he the Cartaya referred to in this letter of Bruce to Rovensky, which was read into the record this morning?

Mr. GEIGER. Yes, sir.

Mr. PECORA. Had he been an official of the Cuban Government?

Mr. GEIGER. He had.

Mr. PECORA. What position had he occupied?

Mr. GEIGER. He had been at one time Secretary of the Treasury.

Mr. PECORA. In the Machado Cabinet?

Mr. GEIGER. In the Machado Cabinet.

Mr. PECORA. Did he resign to become counsel for the Chase interests?

Mr. GEIGER. No; he did not.

Mr. PECORA. Was he still a member of the cabinet at that time?

Mr. GEIGER. At the time he was counsel for us?

Mr. PECORA. At the time he received the \$47,500 fee.

Mr. GEIGER. He was not. That was a year and a half afterward.

Mr. PECORA. When did he resign?

Mr. GEIGER. I think the exact date was April, 1927. I can give it to you in just a moment [after examining papers]. April 12, 1927.

Mr. PECORA. That was about 2 months after the agreement was made with respect to the \$10,000,000 credit extended by the Chase Bank in connection with these deferred-payment public-works certificates.

Mr. GEIGER. Yes, sir.

Mr. PECORA. Dr. Cartaya was a member of the cabinet at the time of that initial financing.

Mr. GEIGER. Yes.

Mr. PECORA. And resigned about 2 months later.

Mr. GEIGER. Yes.

Mr. PECORA. And did he then enter the employ of the Chase interests as an attorney?

Mr. GEIGER. Not immediately; no.

Mr. PECORA. How long after he resigned did he do so?

Mr. GEIGER. I cannot say exactly, but approximately a year and a half. He acted in connection with the second operation.

Mr. PECORA. Do you know when negotiations were opened with him for his entering the service of the Chase interests?

Mr. GEIGER. I do not, Mr. Pecora.

Mr. PECORA. Do you know who employed him?

Mr. GEIGER. Mr. Barr.

Mr. PECORA. That is the gentleman I think you said yesterday was dead.

Mr. GEIGER. Yes.

Mr. PECORA. Now, in connection with the third step in the financing that involved the \$80,000,000 bond issue, did it not?

Mr. GEIGER. It involved an authorized issue of \$80,000,000. Forty million only were issued.

Mr. PECORA. I know. We will get the details of that later. Did Rushmore, Bisbee & Stern get a fee for legal services in connection with that work?

Mr. GEIGER. They did.

Mr. PECORA. Amounting to \$44,401.02?

Mr. GEIGER. Part of that, of course, was out-of-pocket expenses; \$44,401.02.

Mr. PECORA. And did Dr. Bustamante, in connection with that third piece of financing, get legal fees of \$15,000?

Mr. GEIGER. Correct.

Mr. PECORA. Did Dr. Cartaya, in connection with that financing, get legal fees amounting to \$40,000?

Mr. GEIGER. Correct.

Mr. PECORA. Mr. Catlin also got legal fees in that third piece of financing amounting to \$20,000?

Mr. GEIGER. Correct.

Mr. PECORA. What was the occasion for utilizing the legal services of Cartaya in connection with the second and third steps of this financing?

Mr. GEIGER. They wanted the best legal advice they could get.

Mr. PECORA. You had good legal advice in connection with the first financing that did not include his, did you not?

Mr. GEIGER. No. We did not. He was at that time in the cabinet of President Machado.



Mr. PECORA. What additional questions arose that required the services of Mr. Cartaya in connection with the second and third steps of financing?

Mr. GEIGER. That is a legal question, which I believe lawyers could answer better than I.

Mr. WILLIAMS. Mr. Pecora, I should like to state the facts on that, if you will permit me.

Mr. PECORA. All right, sir.

Mr. WILLIAMS. Dr. Cartaya is one of the outstanding lawyers of Cuba, whose integrity and honesty are unquestioned by everyone who knows him, who has had dealings with him. He was one of the principal lecturers on law at the University of Habana law school.

In addition to his ability and standing at the bar as a lawyer, he was thoroughly conversant with the financial problems of Cuba, particularly in connection with this public-works program. After he had resigned from the cabinet of President Machado as Secretary of the Treasury, he reentered the practice of the law and opened his own office in Habana. About a year and a half after that date, Mr. Barr, of the Chase National Bank, asked him if he would be available for services to the bank in connection with this financial program. He considered it from every standpoint and said he would, and he was retained because of his ability as a lawyer and because of his knowledge of the financing involved, and he rendered very valuable and highly helpful services in connection with it.

Mr. PECORA. Does that complete your statement, Mr. Williams?

Mr. WILLIAMS. Yes.

Mr. PECORA. Yesterday the impression was attempted to be created, I think, that Dr. Bustamante was perhaps the greatest legal mind in Cuba.

Mr. WILLIAMS. I do not think any such impression was attempted. Mr. Pecora. Dr. Bustamante is perhaps the first citizen of Cuba. He is the leader of the bar, generally so recognized. He specializes primarily in law, on constitutional questions, and in international law. As you know, he has for a good many years been a member of The Hague Court, at one time president of that court. Dr. Bustamante is a man of advanced years. He is not very active in looking after the details of any legal situation. We used him to advise us on such questions as the constitution of Cuba, on such questions as the Platt amendment, and on such questions as the relations between Cuba and the United States. We used Dr. Cartaya in connection with this financing on the detailed legal work. He actually worked with me from day to day on the preparation of a proposal which led up to the second stage of this financing. He worked with me in detail on the preparation of the agreement. In fact, he came to New York and worked with us at our office there. His services were of a detailed legal nature, such as you or I would perform in a transaction of that kind. Dr. Bustamante was advisory counsel and did not attend to the details of the work.

Mr. PECORA. What was left for Mr. Catlin to do?

Mr. WILLIAMS. Mr. Catlin was called into this business at the beginning, very largely on our suggestion—in fact, on mine, not suggesting him particularly, but an American in Cuba thoroughly conversant with conditions there, with a thorough knowledge of the

personalities with whom we might have to deal, and a fluent Spanish scholar. In fact, he spoke Spanish and wrote it better than 98 per cent of the educated Cubans in Habana. We suggested to Mr. Barr that if our representative should be sent there unfamiliar with the language, unfamiliar with the existing conditions in Habana, unfamiliar with the personalities of the officers and others with whom he might have to deal, it would be very helpful to us if there should be an American with whom we might consult, who might check the translations of English papers into Spanish papers, or check the translation of Spanish papers into English papers. I was in Habana at the time the agreement of February 19, 1927, was concluded. As you know, the method of executing a contract in Habana is this: The notary writes in longhand, in his notarial record, the entire agreement. It has to be very carefully checked by some one to see that it is accurately transcribed, and that it is in accordance with the English translation of that same agreement. Mr. Catlin sat and read that record from beginning to end. He made at least half a dozen corrections of typographical errors made by the notary in transcribing it. I consulted with him from day to day on every Spanish document which we had, on every English document which we prepared, and which had to be translated into Spanish, and we did the same thing in connection with the subsequent stages of this financing. So that he was of extremely valuable assistance to us in connection with it, and had nothing to do whatever with any so-called implications of influence on any Government official, or in any capacity as a so-called "emissary or intermediary." That was not the nature of his work at all.

Mr. PECORA. The fact that he was president of the Santiago Electric Co. at the time Machado was vice president is purely incidental?

Mr. WILLIAMS. We knew, Mr. Pecora, that he was on friendly relations with President Machado, but we did not assume that because of that fact either he or President Machado might be subjected to undue influence, and we did not try to exert any.

Mr. PECORA. And the fact that Dr. Cartaya had been a member of the Machado Cabinet is also pure coincidence, and had nothing to do with his employment as an attorney in connection with the second and third stages of all this Cuban financing?

Mr. WILLIAMS. It had nothing whatever to do with the use of Cartaya in any manner, shape, or form, as exercising any undue influence on any Cuban Government official. He is not the type of lawyer who could be used for that kind of thing, even if it be assumed that we were the type of lawyers who would use him for it.

Mr. PECORA. When was the second piece of financing done?

Mr. GEIGER. The contract was dated June 22, 1928.

Mr. PECORA. Have you a letter in your file there, from Obregon, Machado's son-in-law, dated January 6, 1928, addressed to Mr. Sherrill Smith, vice president of Chase? It is known, in your files, as exhibit 56-38.

Mr. GEIGER. I have it.

Mr. PECORA. Have you found that letter?

Mr. GEIGER. Yes.

Mr. PECORA. I show you what purports to be a photostatic reproduction of the letter, addressed to Mr. Sherrill Smith, vice president,

dated January 6, 1928, signed J. E. Obregon. Will you please look at it and tell me if that is a true and correct copy of a letter sent by Obregon to Mr. Sherrill Smith on that date (handing paper to Mr. Geiger)?

Mr. GEIGER. It is.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, Jan. 6, 1928, Obregon to Sherrill Smith, was received in evidence, marked "Committee Exhibit No. 38, October 24, 1933", and the same was later read into the record by Mr. Pecora.)

Mr. PECORA. When did you say Dr. Cartaya resigned from the Cabinet?

Mr. GEIGER. April 1927.

Mr. PECORA. When was this revolving credit entered into?

Mr. GEIGER. June 22, 1928.

Mr. PECORA. The letter which has been offered in evidence, and is now marked "Committee Exhibit No. 38, this date", reads as follows. [Reading:]

JANUARY 6, 1928.

Mr. SHERRILL SMITH,  
*Vice President, Main Office.*

DEAR MR. SMITH: Immediately upon receipt of your cable of January 5, 1928, with reference to rumors of the Cuban Government contemplating a new long-time loan, I had a conference with President Machado and Secretary of Finance Gutierrez de Celis, although I was sure nothing was going on in that respect as I have President Machado's promise to advise me of any developments in connection with a Government loan, and cabled you today the result of my interview, as follows:

"Referring to your cable of January 5 Government loan, I had interview with President Machado and Secretary of Finance who assured me that Government is not contemplating any loan at present. After Pan American Conference is over they will start negotiations financing public-works plan."

President Machado and Secretary of Finance Gutierrez de Celis both assured me that they are not in the market at this time for any specific loan; that they have in mind starting negotiations for the financing of the public-works plan, but they will not commence this until after the Pan American Conference is over, or sometime the latter part of February.

In various private conversations with President Machado, he has told me that he does not favor the contracting of a regular bond loan, but that he would be glad to listen to propositions in connection with the financing of the public-works plan. Secretary of Finance Gutierrez de Celis, however, favors the regular bond loan.

President Machado's plan is to contract a loan up to the amount that may be necessary to fully complete the public-works plan within the period of time he expects to be in office, which will be four years more. He has in mind something similar to an increase of the \$10,000,000 loan contracted with the Chase, on the same conditions and same form of financing, to be guaranteed by the income of the Public Works Law, which, as you know, is around \$18,000,000 per annum.

You know, of course, that the \$10,000,000 loan was prepared by Dr. Hernandez Cartaya when he was in charge of the Finance Department of the Republic. Dr. Hernandez Cartaya is President Machado's adviser in all important matters of the Finance Department, and I expect him to be our attorney in connection with any financial propositions that may arise with the Government, as in accordance with my agreement with Mr. Barr, he will take charge of some of our important matters.

I believe that in the matter of Government loans we will obtain much better results from Dr. Hernandez Cartaya than from Bufete de Bustamante, as you know Dr. Bustamante, Sr., does not attend to the business of his Bufete personally and the whole proposition is in charge of Dr. Bustamante, Jr., or some



other attorney of the Bustamante staff. I do not think it advisable, therefore, to consult Bufete de Bustamante in these important Government matters.

I will follow this matter closely and keep you posted as to any developments. With best personal regards.

Very truly yours,

J. E. OBREGON, *Manager*.

Might I ask you, Mr. Williams, if you have knowledge of this letter dated January 6, 1928?

Mr. WILLIAMS. Certainly I had knowledge of it.

Mr. PECORA. When in April of that year, if I correctly recall the date when he was engaged as counsel by the Chase interests, he was so engaged?

Mr. WILLIAMS. Certainly I had knowledge, Mr. Pecora. It was thoroughly understood by everybody in Habana that President Machado had great confidence in Cartaya. If he had not, he would not have appointed him Secretary of the Treasury in the first place, I assume. He often consulted him on things, but I answered you plainly on the character of that man, whom I know, and whom everybody else in Habana knows, and whom everyone who has worked with him knows. He is a man of unimpeachable honor and integrity and honesty, and he would not be used, and he would not seek to be used, in any manner inconsistent with his duties as a lawyer or with the ethics of his business and profession.

Mr. PECORA. The fact that he was stated by Machado's son-in-law to be President Machado's adviser in all important matters of the Finance Department did not disqualify him in any way, did it?

Mr. WILLIAMS. Not in any particular. As a matter of fact, throughout this entire financing, in which he took part, Doctor Cartaya was just as keen to protect the interests of the Cuban Government as he was to serve his client. In fact, he leaned over backwards most of the time in that direction.

Mr. PECORA. He was employed by the client to serve the client, and not to lean over backward against the client's interests.

Mr. WILLIAMS. Some lawyers do, where there may be a conflict of duty. He was also acting as attorney for the Chase Bank in other matters in addition to this financing.

Mr. PECORA. Now, Mr. Geiger, do you know whether or not Mr. Obregon paid moneys to newspapers published in Cuba in connection with any propaganda that was favorable to the Chase interests?

Mr. GEIGER. I did not know that until I saw a statement——

Mr. PECORA. Until when?

Mr. GEIGER. I saw a letter, I should say, instead of a statement, purporting to be to that effect.

Mr. PECORA. When did you first see that?

Mr. GEIGER. About 4 weeks ago.

Mr. PECORA. Is that letter one that is dated July 18, 1928?

Mr. GEIGER. That is my recollection.

Mr. PECORA. And addressed to Mr. Carl P. Biggerman, assistant cashier of the Chase Bank?

Mr. GEIGER. That is my recollection. If you will give me the number, I would like to look it up.

Mr. PECORA. 62-7.

Mr. GEIGER. I have that document, Mr. Pecora.

Mr. PECORA. I show you what purports to be a photostatic reproduction of that letter. Will you look at it and tell me if it is a true and correct copy of the letter in question (handing paper to Mr. Geiger)?

Mr. GEIGER. Yes, sir.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The document referred to, letter, July 18, 1928, Findley to Biggerman, was received in evidence, marked "Committee Exhibit No. 39, October 24, 1933", and is as follows:)

COMMITTEE EXHIBIT No. 39

THE CHASE NATIONAL BANK,  
Habana, Cuba, July 18, 1928.

Mr. CARL P. BIGGERMAN,  
Assistant Cashier, Main Office, New York City.

DEAR MR. BIGGERMAN: Mr. Obregon has handed me your letter of July 12, 1928, in connection with the balance outstanding in accounts receivable of \$3,569.89.

We have credited the amount of \$13.00, which was a personal item on the bill of the Biltmore Hotel, making a total then of \$3,556.89. Mr. Obregon advised that the details of these items are as follows:

Traveling expenses to New York made up as follows:

Railroad tickets-----	\$270.51	
Sundry expenses-----	400.00	
		\$670.51
Dr. Hernandez Cartaya traveling expenses as per letter received from him which we enclose-----		387.37
Biltmore Hotel bill for Mr. Obregon, Dr. Hernandez Cartaya, and Dr. A. Garcia as per attached bill-----		499.01
The difference in these amounts is due to the one fourth percent tax and revenue stamps.		
Incidental expenses-----		2,000.00
Total-----		3,556.89

This is made up of various amounts paid to the different local newspapers in compensation for the numerous favorable articles which they published with regard to the loan as per set of copies which we enclose. These papers were the following: La Prensa, El Pais, Diario de la Marina, El Mundo, El Comercio, Excelsior, Heraldo de Cuba, The Habana Morning Post, Mercurio, and Heraldo Comercial.

Very truly yours,

T. M. FINDLEY, Assistant Manager.

Mr. PECORA. The letter is dated Habana, Cuba, July 18, 1928, and is addressed to Mr. Carl P. Biggerman, assistant cashier, main office, New York City. It is written on the letterhead of the Chase National Bank of the City of New York, and is signed by Mr. T. M. Findley, assistant manager. I read only the concluding paragraph thereof. [Reading:]

Incidental expenses----- \$2,000

This is made up of various amounts paid to the different local newspapers in compensation for the numerous favorable articles which they published with regard to the loan as per set of copies which we enclose. These papers were the following: La Prensa, El Pais, Diario de la Marina, El Mundo, El Comercio, Excelsior, Heraldo de Cuba, the Havana Morning Post, Mercurio, and Heraldo Comercial.

Senator COUZENS. They could not have gotten much each, could they?

Mr. PECORA. Do you know whether there were any other newspapers published in Cuba at the time?

Mr. GEIGER. I do not. That is a thing which we heartily disapprove of.

Mr. PECORA. What is that?

Mr. GEIGER. I assume Mr. Obregon did that on his own responsibility. We do not approve of such a thing.

Mr. PECORA. Was there any letter sent to Mr. Obregon, or to any one else connected with the Habana Branch of the Chase Bank, in reply to this letter that has just been read in evidence, which indicates such a disapproval of that practice?

Mr. GEIGER. I do not know. I only saw this letter, as I say, within the past 4 or 5 weeks.

Mr. PECORA. Did you, in searching through the records, when you came across this letter, find any letter in reply to it, in which any expression of disapproval of this practice is contained?

Mr. GEIGER. I do not recall finding any letter in reply. There may have been one. I do not know.

Mr. PECORA. So, if the Chase National Bank disapproved of this practice, you have been unable to find any written communication setting that forth, either addressed to Obregon or anyone else?

Mr. GEIGER. The Chase Bank disapproves of such a thing.

Mr. PECORA. I say, you have not been able to find any written expression of that disapproval addressed to Obregon or anyone else.

Mr. GEIGER. I have made no search for such a letter, but I have not seen any such letter.

Senator TOWNSEND. Is Obregon still in the employ of the Chase Bank?

Mr. GEIGER. He is not.

Senator TOWNSEND. When were his services dispensed with?

Mr. GEIGER. His services were discontinued in April of 1931, 2 months after this letter from Mr. Bruce to Mr. Rovensky.

Mr. PECORA. And 3 years after you learned that this \$2,000 had been paid to these newspapers for propaganda, or nearly 3 years.

Mr. GEIGER. That is correct.

Mr. PECORA. This letter is dated July 1928. Do you know of any necessity for having favorable articles published by the Habana newspapers with regard to these loans in 1928?

Mr. GEIGER. I certainly do not. The loans were obtained in open competition, on sealed bids.

Mr. PECORA. Are you familiar with any loan account that President Machado had with the Chase Bank?

Mr. GEIGER. I have a statement on that subject which, if the committee will permit, I will read into the record.

Mr. PECORA. You may do so.

Mr. GEIGER (reading).

OCTOBER 23, 1933.

The first occasion when General Machado received credit in any form from the Chase National Bank was on December 10, 1927, when he received a traveler's letter of credit in the amount of \$3,170. This credit was paid in full on January 7, 1928.

A year later, on December 11, 1928, General Machado applied for and received a 3 months' loan of \$100,000. This loan was paid at maturity. In April, 1929, General Machado's borrowing relationship with the Chase National Bank was



put on a formal line of credit basis, under which he was entitled to borrow at any one time up to \$100,000. General Machado's need for credit at that time was due to the development then in progress of model industries in a new village near Habana, which had as their purpose the diversification of Cuban industry. The maximum amount drawn under the \$100,000 line of credit during 1929 was \$85,000; the low point was \$25,000.

In January, 1930, General Machado's line of credit was increased to \$200,000. From that time up to July, 1933, the amounts drawn under the credit fluctuated between its full amount and nothing. From October 10, 1930, when the total amount loaned was \$130,000, no fresh borrowings were made, but General Machado gradually reduced the loan until in July 1933 it stood at \$15,000. He then paid that amount, thereby discharging the obligation in full. Interest was paid at 7 percent on all these loans.

Two of General Machado's companies, the Cia. de Calzada "El Morro", a shoe manufactory, and the Cia. Nacional de Pinturas "El Morro", a paint factory, each had commercial credit arrangements with the Chase National Bank. In the case of the former all loans were in the form of discounts of trade paper. Between July, 1929, and November, 1931, its discounted trade paper reached a high point of \$65,625. From then on the amount held diminished until the last of the paper was paid off. Credits to the paint concern were granted in the form of commercial sight letters of credit. Between May, 1928, and the present, the maximum amount held by the bank was \$35,639.75. From then on the amount was gradually reduced until finally paid. Interest was likewise paid on these accounts.

For the sake of completeness it should be added that General Machado's deposit account at the Habana branch was overdrawn on three occasions: On November 17, 1928, in the amount of \$829; on December 15, 1928, for \$1,498; and on November 23, 1929, for \$164. Each of these overdrafts was promptly covered.

Credit was extended by the Habana branch of the Chase National Bank to General Machado and his companies as stated, in the ordinary course of its commercial banking business. The loans in each instance were made on a strictly business basis and had no connection of any kind whatever with the public works financing of the Republic of Cuba or any other activity of the Chase National Bank in Cuba. There was no concession of any kind in connection with them. They were repaid in full, with interest, and neither General Machado nor either of his companies owes the Chase National Bank a dollar, nor has he ever requested or received directly or indirectly in any way, shape, or form anything of value from the Chase National Bank or any of its affiliates, by way of commission, concession, gratuity, or otherwise.

Mr. PECORA. In the letter which has been read in evidence here this morning, sent by Bruce to Rovensky, mention is made of a Dr. Cespedes. Was he a member of the Machado Cabinet?

Mr. GEIGER. He was.

Mr. PECORA. Did he carry a loan account with the Chase Bank?

Mr. GEIGER. He did.

Mr. PECORA. While he was a member of the Cabinet?

Mr. GEIGER. I think during his term of office.

Mr. PECORA. Can you give us the facts in regard to that account?

Mr. GEIGER. With your permission I will read it into the record.

The CHAIRMAN. Go ahead.

Mr. GEIGER. It is headed:

Carlos Miguel de Cespedes. A loan of \$40,000 was granted to——

Mr. PECORA (interposing). That is not the Dr. de Cespedes who recently for a short time held the office of President of Cuba, is it?

Mr. GEIGER. No.

Mr. PECORA. You may go ahead.

Mr. GEIGER. I read, as follows:

A loan of \$40,000 was granted to the above named on January 19, 1928, on an unsecured basis, which was repaid in full on April 19, 1928.

Interest at the rate of 10 percent, amounting to \$977.77, was collected.

On June 25, 1928, a loan of \$35,788.50 was made, which was paid in full on October 30, 1928. Interest at 9 percent, amounting to \$885.92, was collected. The note was endorsed by Gen. Gerardo Machado.

On September 4, 1928, a loan of \$200,000 was made at the rate of 7½ percent, which was secured by \$1,000,000 par value of Cuban-American Realty Co. bonds. The loan was paid in full on December 20, 1930. Interest amounting to \$33,878.89 was collected.

Inasmuch as the same rate of interest was applied on the loan was allowed on a special deposit account, the net interest received on the loan was \$12,514.44.

From September, 1928, until December, 1930, Carlos Miguel de Cespedes maintained the special account above mentioned, and the average balance during that period was approximately \$125,700.

The CHAIRMAN. What was the legal rate of interest in Cuba?

Mr. GEIGER. I think there is no legal rate of interest.

The CHAIRMAN. Do they have no usury laws at all?

Mr. GEIGER. No. I am informed the rate of interest varies there from 7 to 10 or 11½ percent.

The CHAIRMAN. But what is the legal rate of interest?

Mr. GEIGER. There is no legal rate.

The CHAIRMAN. And they have no usury law there at all?

Mr. GEIGER. No.

Mr. PECORA. Who was President Machado's immediate predecessor?

Mr. GEIGER. Zayas.

Mr. PECORA. And when was Menocal president?

Mr. GEIGER. Immediately preceding Zayas.

Mr. PECORA. Did he have a loan account with your bank?

Mr. GEIGER. Yes; he did.

Mr. PECORA. Can you give us the facts with regard to that, briefly?

Mr. GEIGER. I can. And if you will permit me I will read, as follows:

Gen. Mario G. Menocal.—On January 23, 1926, a loan of \$125,000 was made to General Menocal, guaranteed by a mortgage on six small parcels of land aggregating 22½ cabs. (A cab equals approximately 33 acres.) At the same time that our loan was made, Colonel Tarafa made a similar advance, presumably without security. No reduction of the principal amount of the loan has ever been made, and no interest has been paid on same since 1927.

It is not possible in view of the present situation in Cuba to make any real estimate of the value of the mortgaged lands, but a fair figure would probably be \$10,000 to \$15,000.

Mr. PECORA. He defaulted in the payment of interest in 1927?

Mr. GEIGER. In 1926, I believe.

Mr. PECORA. You say in 1926?

Mr. GEIGER. Yes, sir.

Senator TOWNSEND. What was the total amount of the loan?

Mr. PECORA. It was \$125,000.

Mr. GEIGER. The interest was \$1,683.32. Interest was collected on January 20 to March 20, 1926.

Mr. PECORA. Our memorandum is \$1,583.32 interest. Will you look at that figure again?

Mr. GEIGER. Mr. Pecora, this is very dim. I read it as a "6", but I am inclined to think it is a "5."

Mr. PECORA. And that covered the interest period expiring March 20, 1926?

Mr. GEIGER. Yes.

Mr. PECORA. Were any steps ever taken to enforce payment of this loan by foreclosing the mortgage by which it was secured?

Mr. GEIGER. I am informed that various steps were taken, but with no threat of foreclosure.

The CHAIRMAN. What is the state of the account now?

Mr. GEIGER. It is a past due obligation.

The CHAIRMAN. For how much?

Mr. GEIGER. For \$125,000.

Mr. PECORA. For the full amount of the loan?

Mr. GEIGER. Yes, sir.

The CHAIRMAN. That is, \$125,000 with interest?

Mr. GEIGER. Yes, with interest.

Mr. PECORA. In connection with General Menocal, a former president of Cuba, he is still in debt to you in the sum of \$125,000. Do you find among the files of the bank a memorandum addressed to Mr. Wiggin by "G. D. G." who, I take it, is Mr. Graves, dated September 9, 1932?

Mr. GEIGER. I did.

Mr. PECORA. I show you what purports to be a photostatic reproduction of such memorandum, and ask you if it is a true and correct copy thereof?

Mr. GEIGER. It is correct.

Mr. PECORA. I offer it in evidence, Mr. Chairman, and ask that it may be made a part of the record.

The CHAIRMAN. Let it be admitted, and the committee reporter will make it a part of the record.

(The photostat addressed "To Mr. Wiggin" and signed "G. D. G." and dated September 9, 1932, was marked "Committee Exhibit No. 40, October 24, 1933", and will be found immediately below where read by Mr. Pecora.)

Mr. PECORA. Committee's exhibit no. 40 of this date reads as follows:

To MR. WIGGIN:

General Menocal, former President of Cuba, came to see me this morning by appointment. (He still owes us \$125,000, secured by first mortgage on his private residence "Chico" and about 30 cabs of land, on which he never has paid any interest.)

The General stated that he had been informed that the Machado Government was in negotiation with New York bankers for a consolidation of the Cuban debt, and he wished us to know that the opposition believed it to be a very poor time to attempt to consolidate the debt, and that such a consolidation at this time was neither in the interests of Cuba or of the bank. He said that he had been informed that Ferrara had had extensive conversations with Mr. Guggenheim in Habana, and that conversations were being had by the Cuban Ambassador Cintas in the United States. He said that Ferrara had lost all his money and his interest was in making some money for himself, at which point he would go back to Italy.

He said that of course Cuba would never return to its normal condition of happiness and prosperity under Machado, and that he would not be in Cuba today were he not surrounded every moment by an official guard of soldiers.

I told him that personally I was unfamiliar with the status of the Cuban debt question, unaware of any negotiations, to which he replied "I am not asking you to tell me the attitude of the bank, but simply wish Mr. Wiggin should know the attitude of the total opposition for which I speak."

G. D. G.  
GRAVES,

*Vice President Grand Central Branch.*

SEPTEMBER 9, 1932.

cc to Mr. Shepard Morgan.



And in handwriting I find:

Seen by Geiger.

Mr. PECORA. Mr. Chairman, will you take a recess now?

Senator GORE. Mr. Chairman, I should like to ask a question or two.

The CHAIRMAN. Certainly, Senator Gore.

Senator GORE. Mr. Geiger, the name of Mr. Bruce has appeared a time or two this morning. What was his connection with the Chase National Bank at the time, if any?

Mr. GEIGER. At the time he was a vice president of the Chase National Bank.

Senator GORE. Where is he now?

Mr. GEIGER. He is now connected as adviser or as financial adviser, and I do not know which, with the Home Owners Loan Corporation.

Senator GORE. Here in Washington?

Mr. GEIGER. Yes.

Senator GORE. Do you know Mr. Lindsay, who was connected with Blair & Co. during the period that Blair & Co. and the Chase National Bank were figuring on this first proposed loan of \$80,000,000?

Mr. GEIGER. Yes, Senator Gore.

Senator GORE. Was he connected with Blair & Co.?

Mr. GEIGER. Yes.

Senator GORE. Where is Mr. Lindsay now?

Mr. GEIGER. He is with the same organization. I do not know his connection. But I believe he is fiscal agent.

Senator GORE. Where is he located?

Mr. GEIGER. I do not know, sir.

Senator GORE. You do not know whether he is here in Washington or in New York?

Mr. GEIGER. No, sir.

The CHAIRMAN. He is in New York City I guess. The subcommittee will now stand in recess until 2 p.m.

(Thereupon, at 1:05 p.m., Tuesday, Oct. 24, 1933, the committee recessed until 2 o'clock the same day.)

#### AFTERNOON SESSION

The hearing was resumed at the expiration of the recess.

Mr. PECORA. I think that now we may resume the examination of Mr. Shepard Morgan.

#### TESTIMONY OF SHEPARD MORGAN, A VICE PRESIDENT OF THE CHASE NATIONAL BANK, NEW YORK, N.Y.—Resumed

Mr. PECORA. Mr. Morgan, it has already appeared that the Chase interests and Blair & Co. were the successful bidders for the original financing of these \$10,000,000 of deferred-payment public-works certificates.

Mr. MORGAN. Correct.

Mr. PECORA. It also has already appeared that as far back as the spring of 1926 the Chase representatives were casting about for the purpose of getting that business. Is not that correct also?

Mr. MORGAN. Getting business; I would not go so far as to say that business, because the nature of the business was necessarily a matter of evolution.

Mr. PECORA. Well, now, the memorandum that was put in evidence yesterday, which was addressed by Mr. Graves to Mr. Tinker, that bears date March 22, 1926, relates to conversations with General Crowder, the American Ambassador to Cuba at that time, with respect to the financing of the public-works program, does it not?

Mr. MORGAN. Quite true. It had to do with the public-works program; there is no question about that.

Mr. PECORA. Do you know the existence of a letter addressed to Mr. James C. Stewart, of New York, dated July 6, 1926, signed by a man named M. A. Corcalles?

Mr. MORGAN. I have it in my hand, Mr. Pecora. It is Coraalles.

Mr. PECORA. I have what purports to be a photostatic copy of such letter. Will you look at it and tell me whether it is a true and correct copy thereof?

Mr. MORGAN. I so identify it.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.

(The letter referred to, dated Habana, July 6, 1926, from M. A. Coraalles to Mr. James C. Stewart, was received in evidence as Committee's exhibit no. 41, Oct. 24, 1933.)

Mr. PECORA. The letter reads as follows: It is dated Habana, July 6, 1926, addressed to Mr. James C. Stewart, New York:

MY DEAR MR. STEWART: Mr. H. Catlin, the closest business friend of President Machado, is now working in New York on the Carretera Central plan. To my way of thinking, he is the man you ought to be associated with.

Yours very sincerely,

M. A. COROALLES.

The Carretera Central plan referred to in this letter is none other than this central highway which you spoke of yesterday, is it not?

Mr. MORGAN. Quite true.

Mr. PECORA. And the H. Catlin referred to is the same Henry E. Catlin whose legal services were required and considered to be necessary to the Chase interests in connection with the financing of these loans?

Mr. MORGAN. It was Henry W. Catlin.

Mr. PECORA. The H. Catlin referred to in this letter just read in evidence is the same Catlin, is he not?

Mr. MORGAN. I assume so.

Mr. PECORA. Who is Mr. James C. Stewart, the person to whom this letter is addressed?

Mr. MORGAN. He was a contractor.

Mr. PECORA. Was he connected in any way with the Chase interests?

Mr. MORGAN. His concern made an exploratory plan in collaboration, I believe, with Blair & Co.

Mr. PECORA. And Blair & Co. were the associates of the Chase Bank and the Chase Securities Corporation in bidding for this financing?

Mr. MORGAN. Ultimately; yes.

Mr. PECORA. Did Mr. Catlin's association as a member of the advisory committee of the Habana Branch of the Chase National Bank commence after the date of this letter, which is July 6, 1926?

Mr. MORGAN. At the opening of the branch he was a member of the advisory committee of the Chase National Bank, in the beginning of 1925, a year and a half prior to the writing of this letter.

Mr. PECORA. Was he a member of the advisory committee from the very inception of that branch?

Mr. MORGAN. I am so advised.

Mr. PECORA. How have you been so advised—through any records that you have had access to?

Mr. MORGAN. No; no record.

Mr. PECORA. What is the source of your information?

Mr. MORGAN. My associates.

Mr. PECORA. Can you not be more specific than that?

Mr. MORGAN. Mr. Williams and Mr. Rosenthal.

Mr. PECORA. Who is the signer of this letter—Mr. Coroalles?

Mr. MORGAN. We made some effort to identify that name, Mr. Pecora. A Mr. M. A. Coroalles was then engineer of the bureau of roads and bridges of the Cuban Government, in 1930. This may possibly be the same man.

Mr. PECORA. Now will you look at your copy of the letter which has just been offered in evidence as Exhibit No. 41, and you will find an inscription in the upper left-hand corner thereof. Do you find it?

Mr. MORGAN. Yes.

Mr. PECORA. How does that read?

Mr. MORGAN. I am not a Spanish student. Mr. Geiger knows the Spanish language, if you will let him read it.

Mr. PECORA. I think it refers to bridges.

Mr. GEIGER. Secretary of public works, office of roads and bridges, correspondence of the chief engineer; private.

Mr. PECORA. Do you know the occasion of Mr. Coroalles writing this letter to Mr. Stewart?

Mr. MORGAN. No, Mr. Pecora.

Mr. PECORA. You do not know what prompted it?

Mr. MORGAN. No.

Mr. PECORA. How does your bank happen to have a copy of this letter in its files? Whom did it get it from?

Mr. MORGAN. I assume, because of the later relation with the public-works financing, derived through Blair & Co. Otherwise I cannot explain it.

Mr. PECORA. Did Stewart ultimately obtain any contracts from the Cuban Government as part of this public-works program?

Mr. MORGAN. He did not.

Mr. PECORA. Have you found in the special study you have made of the subject of these Cuban loans a letter or a copy of a letter addressed to Mr. J. C. Stewart by Mr. M. A. Coroalles dated July 25, 1926? The number by which you have probably designated it is 56-14.

Mr. MORGAN. Yes; I have it.

Mr. PECORA. I show you what purports to be a photostatic reproduction of said letter. Will you please look at it and tell me whether it is a true and correct copy thereof?

Mr. MORGAN. Correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted.



(Photostatic copy of letter dated Habana, July 25, 1926, from M. A. Corrales to J. C. Stewart was received in evidence as committee's Exhibit No. 42, Oct. 24, 1933.)

Mr. PECORA. The letter is dated Habana, July 25, 1926, addressed to Mr. J. C. Stewart, New York, and reads as follows:

MY DEAR MR. STEWART: Enclosed you will find a copy of the central highway specifications.

Mr. Alexander came to see me the other day to find out how it was that I had sent to New York a copy of the specifications to Mr. Catlin. I told him that I did not know this gentleman and that if I wanted I could do as I pleased.

Had a talk tonight with one of the local vice presidents of the National City Bank at the Habana Yacht Club. He asked me if I knew you and if I knew whether you would bid. I told him I knew you but had not heard about you since you left.

Then I asked him if he knew Catlin was interested in the work and he said he did not know it, although he operated always through the bank. This gentleman gave me to understand that the bank was interested in backing Warren Bros. of Boston. A New York firm, which I don't know, Uhlen, has ordered a prominent Cuban lawyer, D. Mendez Capate, to New York for consultation.

If you read article 279, a cost-plus proposition could be made.

I cannot go to New York on account of not having anybody to take charge of getting things ready.

The heat here is not any worse than in New York. When you come down, make arrangements to stay at the country club. There are vacant rooms and it is always cool at night.

I again call your attention to Catlin. He is the man nearest to the president.

Hoping to see you soon, I am,

Yours very sincerely,

M. A. CORRALES.

Do you know, Mr. Morgan, how you happen to have a copy of this letter in the files of the bank, although it is addressed to this same Mr. Stewart?

Mr. MORGAN. Since you were out, Mr. Pecora, I looked in the files for two letters prior to the letters you have taken out, and I find that these two letters were sent by Mr. Stewart to Mr. Edward R. Tinker under date of August 16, 1926. Mr. Stewart, as I indicated previously, had been exploring with Blair & Co., and indirectly with the Chase Securities Corporation, a project for the construction and financing of the highway project. That exploration, as far as the Chase Securities Corporation is concerned, came to an end in February or March previously to the transmission of these letters—

Mr. PECORA. Have you a letter—

Mr. MORGAN. Just half a minute, please. Stewart continued in friendly relations with the Chase Bank as a depositor.

Mr. PECORA. Have you a letter by which Stewart forwarded these two letters to Mr. Tinker?

Mr. MORGAN. I hold it in my hand.

Mr. PECORA. How does it read?

Mr. MORGAN (reading):

17 East Forty-second Street, New York, August 16, 1926—

Under the heading—

James C. Stewart.

Mr. EDWARD R. TINKER,  
New York City.

DEAR MR. TINKER: I am enclosing you copies of two letters, one received a week or 10 days ago and the other reached me this morning. These may

be of interest to you. I am sailing on the S.S. *Orrizaba* of the Ward Line on the 21st instant, going down to look over the situation on this development. It is probable that we will make a proposition to do the road work for the Government on a percentage basis. We would not, however, undertake a fixed price contract as the conditions enumerated in the invitation to bidders are too indefinite.

In view of our former general understanding—

That is the one that terminated—

and before leaving, I should like very much to have a short talk with you. If I should be asked any questions when I am down there I would like to know what replies you would wish to have me make. Since my return from Habana I have had no communication with anybody excepting the gentleman whose letters I enclose, and mine to him have been merely acknowledgements except my first letter when I thanked him for the courtesies shown me while in Habana. Will you be good enough to write or telephone me what time will be convenient.

Very truly yours,

J. C. STEWART.

Mr. PECORA. Do you know whether or not the information that was contained in both of these letters of Coroalles to Stewart concerning the friendship between Catlin and President Machado was information that Mr. Tinker was receiving for the first time through the medium of the forwarding of these letters by Mr. Stewart?

Mr. MORGAN. May I check the date? [After referring to files.] Mr. Pecora, whether Mr. Tinker knew at this date I do not know; but I find a memorandum dated June 15, 1925, of which you have photostat no. 5573-A, which refers to—

Mr. PECORA. Is that a memorandum for Mr. R. L. Clarkson or a memorandum signed by one whose initials are K. A. P.?

Mr. MORGAN. This is a memorandum of a conversation with Mr. Clarkson.

Mr. PECORA. Who is K. A. P.?

Mr. MORGAN. Karl A. Panthen.

Mr. PECORA. Was he connected with the Chase interests?

Mr. MORGAN. The Chase Securities Corporation; yes.

Mr. PECORA. In the memorandum to which you have just referred and which you say is dated June 15, 1925, did Mr. Panthen say in part as follows:

This afternoon R. L. C.—

Who, I take it, is R. L. Clarkson—

talked to Mr. Catlin of the Electric Bond & Share Co. regarding the forming of a syndicate for the purchase of part of Cuba's so-called "floating debt."

And then omitting the reading of matter which immediately follows—

Mr. MORGAN. I am having some difficulty in distinguishing two memoranda bearing the same date, Mr. Pecora.

Mr. PECORA. Well, the one to which I have reference relates to the Cuban floating debt.

Mr. MORGAN. What is the reference number?

Mr. PECORA. 62-12-a.

Mr. MORGAN. I have this one [indicating], but I find no date on it.

Mr. PECORA. Perhaps the date is at the end of it.

Mr. MORGAN. Yes.

Mr. PECORA. What is it?

Mr. MORGAN. July 15, 1925.

Mr. PECORA. July or June?

Mr. MORGAN. July.

Mr. PECORA. Do you find in that memorandum the following, among other things:

This afternoon R. L. C. talked to Mr. Catlin of the Electric Bond & Share Co. regarding the forming of a syndicate for the purchase of part of Cuba's so-called "floating debt"?

Mr. MORGAN. Still we have not the same.

Mr. PECORA. Look at 56-2. I can hardly make it out, but it seems to be 56-2.

Mr. MORGAN. I have 56-2.

Mr. PECORA. Does that read in part as follows:

Cuban floating debt: This afternoon R. L. C. talked to Mr. Catlin of the Electric Bond & Share Co. regarding the forming of a syndicate for the purchase of part of Cuba's so-called "floating debt."

And then skipping some of the matter which immediately follows, I will read as follows:

Mr. Catlin informed us that he is a lawyer employed by the Electric Bond & Share Co., to which he devotes all of his time.

Then the next paragraph reads as follows:

Mr. Catlin is a close personal friend of President Machado. Mr. Catlin bought the Santiago Electric Co., and he became president of that company and Mr. Machado vice president. Later on Mr. Machado became president of the Santiago Electric Co.

Do you find that in that memorandum?

Mr. MORGAN. Yes, Mr. Pecora.

Mr. PECORA. That is a memorandum by this K.A.P. to whom?

Mr. MORGAN. Not addressed to anyone.

Mr. PECORA. It is among the files of the bank?

Mr. MORGAN. Chase Securities Corporation.

Mr. PECORA. Do you find any notation upon it which in any way serves to indicate to you to whom this memorandum was addressed?

Mr. MORGAN. Designation on the side I can read as "File R.L.L." Pencil initials "G.A.—copy for card summary of financing—File C.F.B." Oh, no; that is another one.

Mr. PECORA. This memorandum is dated June the 15th, 1925, is it not? Look at the upper left-hand corner.

Mr. MORGAN. Yes.

Mr. PECORA. You referred to another memorandum on the Cuban floating debt dated July 15, 1925. Is that also signed "K.A.P."?

Mr. MORGAN. To which one do you refer now?

Mr. PECORA. To No. 62-12-A.

Mr. MORGAN. Also K.A.P., yes.

Mr. PECORA. Is there any indication on that memorandum concerning the identity of two person to whom it was addressed?

Mr. MORGAN. I see nothing that identifies it.

Mr. PECORA. This memorandum starts as follows, does it not [reading]:

R. L. Clarkson called on Mr. Catlin the other day and discussed the purchase of Cuban floating indebtedness bonds."?



Do you find that?

Mr. MORGAN. Yes.

Mr. PECORA. Will you look at the last paragraph on the first page of this memorandum and tell us if you find the following therein:

Mr. Catlin states that the Bank of Montreal is much more popular in Cuba than the National City Bank. The reason for the latter's unpopularity is due to the fact that during the last trouble in Cuba the National City Bank took over a good many plantations of the Cubans. Mr. Catlin states that these people never forget. While Mr. Catlin is close to the National City Bank and knows Mr. Mitchell very well, he states that he prefers to play with the Chase crowd, mainly due to his very high regard for Mr. Wiggin. He informed us that recently he was instrumental in having the brother-in-law of General Machado made Notarial Attorney for the Chase Bank in Habana, just beating out the National City Bank.

Do you find that in this memorandum?

Mr. MORGAN. I do, but there never was a Bank of Montreal in Habana.

Mr. PECORA. Well, that was not the special point in my calling this portion of the memorandum to your attention.

Now, who was the brother-in-law of General Machado that is referred to in this memorandum?

Mr. MORGAN. I do not know, Mr. Pecora.

Mr. PECORA. He became notarial attorney for the Chase Bank in Habana. Wouldn't your files or records indicate his identity or name?

Mr. MORGAN. The files in Habana probably would reveal it, but I have nothing here that would show it.

Mr. PECORA. It says here specifically that—

Mr. Catlin informed us that recently he was instrumental in having the brother-in-law of General Machado made notarial attorney for the Chase Bank in Habana, just beating out the National City Bank.

Mr. MORGAN. That is like the case of the Bank of Montreal. We never knew that he had a brother-in-law.

Mr. PECORA. Apparently the man whose initials were K.A.P. knew of Machado.

Mr. MORGAN. He referred to Machado.

Mr. PECORA. And knew that he was in the employ of the Chase Bank in Habana.

Mr. MORGAN. Mr. Pecora, I have no knowledge of this.

Mr. PECORA. Did you come across this memorandum?

Mr. MORGAN. Yes.

Mr. PECORA. In the course of your special study of these loans?

Mr. MORGAN. Yes.

Mr. PECORA. Did you make any inquiries concerning the identity of that brother-in-law when you came across this memorandum?

Mr. MORGAN. Absent through this whole proceeding I can tell you nothing. It was one of the innumerable exploratory efforts that were made down there to see what sort of financing would be suitable for the Cuban situation. This was entirely abortive as far as the main program was concerned. The reference here is to a small undertaking to invest in Cuban floating indebtedness bonds, which I would be very glad to tell you about.

Mr. PECORA. Apparently from this memorandum there was quite a rivalry between the Chase National Bank in Habana and the

National City Bank to acquire the services of General Machado's brother-in-law and that the Chase Bank won out through the agency of Mr. Catlin, who Coroalles wrote that same month was the closest business friend of General Machado. That is a fair statement of what seems to have been the fact, is it not?

Mr. MORGAN. Mr. Pecora, we have no knowledge at present that General Machado had a brother-in-law.

Mr. PECORA. Could this have been a mistaken reference to the relationship of Obregon, who was the son-in-law of General Machado?

Mr. MORGAN. He was never a notary, to our knowledge.

Mr. PECORA. When did he first become connected with the Chase Bank in Habana?

Mr. MORGAN. Obregon?

Mr. PECORA. Yes.

Mr. MORGAN. In May 1927.

Mr. PECORA. Mr. Stewart some time in August, 1926, forwarded to Mr. Tinker the two letters that he had received in July, 1926, from Coroalles, you told us. Mr. Stewart was seeking contracts at that time from the Cuban Government, was he not?

Mr. MORGAN. He says so.

Mr. PECORA. He says so in his letter to Mr. Tinker. Do you know why he withdrew from the competition for those contracts?

Mr. MORGAN. He put in a bid but did not get it.

Mr. PECORA. Do you know whether any suggestion had ever been made to Mr. Stewart in connection with his submission of bid that a certain portion of the moneys that he might receive under the contracts, had they been let to him, was to be paid over to any particular individual or individuals?

Mr. MORGAN. I never heard of it.

Mr. PECORA. Did you come across any reference to any such thing in the files and records of your company or bank?

Mr. MORGAN. I do not recall them. If so, they would not impress my mind, because they had nothing whatever to do with the Chase Bank.

Mr. PECORA. If they are there you would say they would not impress your mind?

Mr. MORGAN. No; because they had nothing to do with the Chase Bank.

Mr. PECORA. Can you make another search while you are there among your records to see if you don't find some written reference or memorandum to Mr. Stewart in that connection?

Mr. MORGAN (after examining papers). The only reference I find in the correspondence to or from Mr. Stewart is a letter from him to Blair & Co. and the Chase Securities Corporation jointly under date of October 11, 1927, in which he said that expenses incurred by him during this exploratory excursion of himself and his men in the early part of 1926 had not yet been paid and he would like to find out if some arrangement could not be made for the settlement.

Mr. PECORA. Will you read the letter in full, please?

Mr. MORGAN. On the letterhead of James Stewart & Co., Inc., under date of October 11, 1927. [Reading:]

BLAIR & CO., INC.,

CHASE SECURITIES CORPORATION,

*New York City.*

(Attention: Mr. Hunter F. Marston, Mr. Henry Lockhart, Jr., Mr. H. G. Freeman.)

DEAR SIRs: It is extremely embarrassing to again take up the question of our being reimbursed for the expenses and advances we made in connection with the investigation and preparation for the estimate for the Cuban highways following our agreement. Upon my return from Habana in February 1926 we sent a statement of the cost of this investigation to you, since which we have repeatedly called your attention to it, and, although numerous promises have been made with regard to appointments to discuss the matter, all were without result.

I regret the necessity of again writing you on this subject. It is a pure business proposition. It requires attention and ordinary business courtesy. If there are differences between your companies, it should not affect us.

MR. PECORA. What was the agreement referred to in this letter of Mr. Stewart with regard to his right to reimbursement for expenses and advances made by his company in connection with the preliminary investigation and preparation of the estimates for the Cuban highways?

MR. MORGAN. During January of 1926 the Chase Securities Corporation joined with Messrs. Blair & Co., Inc., James C. Stewart & Co., Inc., for the purpose of organizing a group for the purpose of underwriting a \$70,000,000 revolving credit to finance the public-works program. A 4-party group was organized and included James Stewart & Co., Guy Currier et al., Chase Securities Corporation, Blair & Co., Inc., with a 25 percent interest each.

The group arrangement was apparently never satisfactorily worked out and on February 19, 1926, Mr. Currier addressed a letter to Mr. Elisha Walker, president of Blair & Co., Inc., urging that some definite action should be taken and pointing out that the Stewart company had several engineers in Cuba at a heavy expense.

The Stewart people, the record indicated, were sent to Cuba by Mr. Lockhart of the Blair organization. Mr. Callahan of the Chase Securities Corporation pointed out in a memorandum of February 15, 1926, that there was some confusion; that there should be a meeting at the Chase office with the Stewart interests.

Mr. Currier represented the Taraffa interests—he is a Cuban capitalist. In the meantime Messrs. Blair & Co. withdrew from the group. He returned from Cuba during February or March, 1926, and in March submitted an expense account for \$35,729.31. Mr. Powell had incurred expenses of \$3,223.33.

By letter dated April 12, 1926, the Chase Securities Corporation and Messrs. Blair & Co. notified Mr. Cespedes that they were withdrawing from the negotiations.

On April 28 a letter was sent to Mr. Currier advising him of the withdrawal, and a similar letter sent to the James C. Stewart Co.

Does that answer the question?

MR. PECORA. Have you also in your files a copy of a letter sent to Mr. James C. Stewart by M. A. Coroalles, dated August 10, 1926, designated in the upper right-hand corner thereof as "56-13"?

MR. MORGAN (after examining documents). Yes; I have such a letter.



Mr. PECORA. I show you what purports to be a photostatic copy thereof. Will you look at it and tell us if it is a true and correct copy of the original?

Mr. MORGAN (after examining document). Correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be admitted and entered on the (Photostat of letter to James C. Stewart from M. A. dated Aug. 10, 1926, and designated "56-13", was thereupon noted "Committee Exhibit No. 43, Oct. 24, 1933.")

Mr. PECORA. Dated Habana, August 10, 1926. [Reading

Mr. JAMES C. STEWART,

*New York.*

MY DEAR MR. STEWART: Received your letter of August the 2d. a talk with Mr. Rivera, one of the high officials of the National who asked me if I had heard of a rumor of the Chase National fi J. C. Stewart Co. I told him I did not believe it.

The Habana agent of Myers, of Chicago, told me that a few Myers had authorized him to make to Cespedes, the Secretary of Pr an offer for the construction of the Central Highway at cost plus. This gentleman is not very reliable, so you must take this information with reservations.

Up to date nobody has appeared to examine surveys and data ready 400 kilometers of complete surveys, and by September will have about 300 more.

Very likely the granite paving will be suppressed, as the Swedish Norwegians have organized a trust to raise the price on blocks. I want to be very careful of what he talks by telephone with Cespedes.

I want to call your attention in regard to the percentage of money in the specifications for the Central Highway. This percentage was fixed by Cespedes, and the president can change it if he so desires to a much larger amount.

The administration needs by all means to carry out for political reasons the construction of the Central Highway and it is my firm belief that it will go any length to carry it out.

Under separate cover I send you a copy of the English specifications. Enclosed you will find a copy in Spanish of the proposals in blank, which have not been translated into English.

Hoping to have the pleasure of meeting you soon, I am

Yours sincerely,

"M. A. COROALLES."

Do you know anything about the circumstances of the sending of this letter?

Mr. MORGAN. This is one of the two letters referred to a moment ago that was sent to Mr. Tinker under date of August 16, one of the two letters.

I should make it perfectly clear again, Mr. Pecora, that this correspondence had to do with nothing that the Chase bank had in contemplation. The arrangement which had been under discussion with Stewart & Co. some 4 or 5 months before was terminated. Why Mr. Stewart felt it desirable to keep Mr. Tinker informed I suppose was purely a friendly matter, thinking that he might get him back into the business.

Mr. PECORA. What was this man Coroalles doing, do you suppose, keeping Stewart tipped off and giving him inside information concerning his public-works program?

Mr. MORGAN. I do not presume to be a judge of any such thing.

Mr. PECORA. By the way, I observe that in all the letters addressed by Coroalles to Stewart the name signed to those letters reading "M. A. Coroalles" always appears with quotation marks

about it? Is there any significance to those quotation marks? Do they, for instance, indicate that the name is merely an assumed name for the purposes of carrying on this correspondence?

Mr. MORGAN. I haven't the faintest idea. I imagine it was a signature, and the quotation is given in order to show it as a signature, an idiosyncrasy of the typist, perhaps.

Mr. PECORA. At what point did the Chase National Bank, following the agreement of February 19, 1927, subsequently purchase the \$100,000 face value of the deferred-payment public-works certificates?

Mr. MORGAN (after examining papers). We had agreed to buy the certificates at face amount Mr. Pecora, but, as a matter of fact, the four millions and a half were drawn down before the second agreement came into effect. The exact figure is \$4,258,799.41.

Mr. PECORA. Now, you spoke yesterday of the second stage of this agreement of the public works that was undertaken by the Chase National Bank involving a revolving credit of \$60,000,000.

Mr. MORGAN. Correct.

Mr. PECORA. When was the agreement with respect to that financing entered into?

Mr. MORGAN. June 22, 1928, as a supplemental agreement to the first one.

Mr. PECORA. What were the essential features of that agreement involving a revolving credit?

Mr. MORGAN. There were some 10 principal clauses in this agreement. Would you like me to give them fairly extensively or casually?

Mr. PECORA. Well, give them comprehensively, but as briefly as possible.

Mr. MORGAN. The bank submitted a proposal—or we will start even before that and say that on April 28, 1928, the Secretary of the Treasury of the Republic issued an official invitation to banking institutions having their business in Habana to submit proposals for financing the public-works program in an amount not less than \$40,000,000 nor more than \$50,000,000. The Chase National Bank submitted a sealed proposal on May 12, 1928, for additional financing of \$50,000,000 through the establishment of a revolving credit of \$60,000,000, including the first operation, that is to say, the fixed credit of \$10,000,000. Sealed proposals were also submitted by two other responsible groups of financial institutions.

These proposals were opened and read by the Secretary of the Treasury of the Republic of Cuba on the day of their submission in the presence of the representatives of the bidders.

On the same day the Chase National Bank delivered a copy of the proposal to the American Ambassador in Habana, Mr. Judah, and on May 22, 1928, the Chase National Bank sent a copy to the State Department at Washington.

Under the terms of this agreement, which was finally awarded to the Chase bank after submission to the Board of Awards, the deferred payment work certificates issued to the construction contractors for work performed by such contractors and accepted by the Government were assigned to the bank up to a total amount not exceeding \$10,000,000; when they could be converted into public-

works 5½-percent serial certificates to the same principal amount, thereby restoring the operation of the credit and in this way permitting it to revolve until there should be issued up to a total aggregate principal amount of \$50,000,000—

Mr. PECORA. That was in addition to the original \$10,000,000?

Mr. MORGAN. Quite.

Mr. PECORA. That the Chase interests acquired under the agreement of February 19, 1927?

Mr. MORGAN. Yes.

Mr. PECORA. Go ahead.

Mr. MORGAN. \$50,000,000 serial certificates and either serial certificates or deferred-payment work certificates for \$10,000,000 representing the original fixed credit. This agreement provided for the payment of a commission of 1 percent, or \$500,000, on the additional \$50,000,000 financing, payable upon the supplemental agreement becoming effective, and for a conversion commission of 1.80 percent upon the conversion of deferred-payment work certificates into serial certificates up to but not exceeding \$50,000,000 principal amount. The commission payable in respect of the original fixed credit of \$10,000,000, as above stated, was left undisturbed. Such commission of \$500,000 was paid on July 5, 1928, by check of the Treasury Department payable to the order of the Chase National Bank and delivered to Mr. Obregon in his representative capacity as joint manager of the Habana branch. On the same day the amount thereof was credited by the Habana branch to the main office in New York.

On July 31, 1928, the amount of this commission, after deducting expenses in connection with the business, was divided between the Chase National Bank and its associates in accordance with their respective interests in the business.

The public-works 5½-percent serial certificates issued under the supplemental agreement of June 22, 1928, were issued with maturities and in the principal amounts as to each maturity not exceeding the estimated public-works revenues for the year in which they should mature, in conformity with the requirements of the public works law and the supplemental agreement. Ten million dollars principal amount of these serial certificates issued under such agreement in exchange for and upon conversion of an equal principal amount of deferred-payment work certificates held by the bank for the account of itself and associates were offered to the public on October 24, 1928, and sold at the public offering price of 99¾ and accrued interest; \$10,000,000 additional amount thereof similarly issued in exchange for and upon conversion of deferred-payment work certificates were offered to the public on January 29, 1929, and sold at the public offering price of 100 and accrued interest.

Mr. PECORA. Now, the \$50,000,000 additional to the first \$10,000,000 to be advanced under this agreement was to be used to replace deferred-payment public-works certificates issued as various stages of the work on this public highway were completed.

Mr. MORGAN. Yes.

Mr. PECORA. And those public-works certificates were to be replaced by serial certificates.

Mr. MORGAN. Yes.



Mr. PECORA. What were the maturities of those serial certificates?

Mr. MORGAN. They matured semiannually in \$6,250,000 lots, from December 31, 1931, to June 30, 1935. That includes not simply the \$20,000,000 which were issued to the public, but an additional amount.

Mr. PECORA. Did Chase have any associates in this financing?

Mr. MORGAN. Yes.

Mr. PECORA. Who were they, and what were their respective proportions of participation?

Mr. MORGAN. The first \$10,000,000, that is, the fixed credit arranged under the first agreement, was a joint, 50 percent each arrangement with Blair & Co.

Mr. PECORA. Yes.

Mr. MORGAN. That left \$50,000,000 which was apportioned as follows, or participated in as follows: the Chase Securities Corporation and the Chase National Bank, \$13,333,334. Blair & Co.—

Mr. PECORA. That represented 26⅔ percent.

Mr. MORGAN. No. This was a joint account of the two institutions.

Mr. PECORA. Yes; but was that joint account of the institutions, that is, the Chase National Bank and Chase Securities—

Mr. MORGAN. No. They shared equally in the \$13,333,334.

Mr. PECORA. That \$13,333,334 represented 26⅔ percent of the \$50,000,000, did it not?

Mr. MORGAN. Oh, excuse me. Yes. Blair & Co., \$13,333,333; Equitable Trust Co. of New York, \$13,333,333; Continental National Co. of Chicago, \$10,000,000.

Mr. PECORA. The Continental National Co. is the investment affiliate of the Continental National Bank & Trust Co. of Chicago.

Mr. MORGAN. Yes. It was the affiliate of that institution as it was then constituted. It has changed its name once or twice since.

Mr. PECORA. How were these serial certificates secured, if at all?

Mr. MORGAN. By the deferred payment work certificates which were held—I am corrected. They were secured by a first lien on 30 percent of the public works revenue.

Mr. PECORA. That is, the public works revenues that were created, provided for by the public works law of July 15, 1925.

Mr. MORGAN. Those earmarked revenues that I referred to yesterday morning.

Mr. PECORA. Did this syndicate issue any of those serial certificates to the public?

Mr. MORGAN. Two lots of \$10,000,000 each.

Mr. PECORA. When were they issued, and for how much?

Mr. MORGAN. October 24, 1928, in the amount of \$10,000,000. The maturities were as follows: December 31, 1931, \$6,250,000; June 30, 1932, \$3,750,000.

Mr. PECORA. The first maturity date was December 31, 1931.

Mr. MORGAN. Yes.

Mr. PECORA. And the balance of \$3,750,000 matured on what date?

Mr. MORGAN. June 30, 1932. The second issue of \$10,000,000—

Mr. PECORA. Before we come to the second, let me ask you this. Did the syndicate which issued these serial certificates to the public put out a circular or prospectus advertising the issue?

Mr. MORGAN. Yes.

Mr. PECORA. I show you this photostatic copy of what purports to be such a prospectus. Will you look at it and tell me if it is a true and correct copy of the prospectus so issued [exhibiting paper to Mr. Morgan]?

Mr. MORGAN. Correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. Let it be received.

(The document referred to, prospectus dated July 1, 1928, \$10,000,000, Republic of Cuba public works 5½-percent serial certificates, was received in evidence, marked "Committee Exhibit No. 44", October 24, 1933, and the same appears in part on page 2702.)

Mr. MORGAN. These prospectuses have all been printed and are a matter of record in the hearing of 1932.

Mr. PECORA. I just asked that it be marked in evidence, without being spread in full on the record.

Senator COUZENS. May I ask a question at this point? Was there any provision to prevent the Cuban Government from repealing those special road taxes? You say they were security for these loans.

Mr. MORGAN. The covenant, Senator, provided that the Cuban Government would keep taxes in effect, but, nevertheless, could alter them within the field of the revenues required to meet the obligation.

Senator COUZENS. Could one Congress commit another Congress to perpetuate a tax?

Mr. MORGAN. It becomes an inviolable obligation of the Cuban Government.

Senator COUZENS. I think that is rather inadequate security to rely upon, if that is all you were relying upon.

Mr. WILLIAMS. Senator, that contract, when made by the Cuban Government, as we were advised at the time by our Cuban counsel, became a contract of a civil nature, which is protected by the constitution of Cuba.

The CHAIRMAN. The prospectuses you have mentioned appear at page 2039, part 4, of the hearings before the Committee on Finance under Senate Resolution 19. On page 2039 the following statement appears (reading):

(The three papers, being prospectus of \$10,000,000 Republic of Cuba public works 5½-percent serial certificates, dated October, 1929, prospectus of \$10,000,000 Republic of Cuba public works 5½-percent serial certificates, January, 1929, and prospectus \$40,000,000 Republic of Cuba public works 5½-percent sinking fund gold bonds, February, 1930, are here printed in the record in full, as follows:)

That includes this prospectus you have just mentioned?

Mr. MORGAN. Yes, sir.

The CHAIRMAN. So, they appear already, printed at page 2039 and subsequent pages. There is no need to insert them in the record again, I think.

Mr. PECORA. No. I have just asked that it be received in evidence, but not spread on the record.

When was the second allotment of \$10,000,000 face value of these serial certificates issued to the public?

Mr. MORGAN. January 29, 1929.

Mr. PECORA. At what price?

Mr. MORGAN. Par.

Mr. PECORA. At what price were they taken over by the underwriting syndicate?

Mr. MORGAN. A conversion commission of 1.80 percent.

Mr. PECORA. What were the maturity dates of the second set of serial certificates?

Mr. MORGAN. June 30, 1932, \$2,500,000; December 31, 1932, \$6,250,000; June 30, 1933, \$1,250,000.

Mr. PECORA. I show you what purports to be a photostatic reproduction of a prospectus issued by the Chase Securities Corporation covering this additional issue of \$10,000,000 of these public works serial certificates. Will you look at it and tell us if it is a true and correct copy of such prospectus so issued? [Handing paper to Mr. Morgan.]

Mr. MORGAN. Correct.

Mr. PECORA. I ask that it be marked in evidence.

The CHAIRMAN. Let it be admitted.

Mr. PECORA. It need not be spread upon the record. I think that also was published in the Senate Finance Committee hearings.

The CHAIRMAN. It is admitted in evidence, but not made a part of the record, because of previous publication.

(The document referred to, prospectus dated January 1, 1929, \$10,000,000 Republic of Cuba public works 5½ percent serial certificates, was received in evidence, marked "Committee Exhibit No. 45," October 24, 1933, and the same is not printed here for the reasons stated above.)

Mr. PECORA. What happened to the remainder of these serial certificates, Mr. Morgan?

Mr. MORGAN. They remained in the hands of the group of bankers.

Mr. PECORA. That is, the Chase Securities Corporation, Blair & Co., the Equitable Trust Co., and the Continental National Co.

Mr. MORGAN. In proportion to their interests.

Mr. PECORA. Subdivided among them.

Mr. MORGAN. Yes.

Mr. PECORA. What were the maturities of those serial certificates? Were they later than the dates of maturities of the first two series of serial certificates?

Mr. MORGAN. Yes. I have given the complete list of maturities, the contemplated list of maturities, already; and I have given the maturities of the securities issued to the public. The difference between those would be the maturities held by the bank.

Mr. PECORA. But the underwriting banks or institutions held the \$30,000,000 face value of serial certificates that matured subsequent to June 1933.

Mr. MORGAN. Yes, except for \$5,000,000 of June 30, 1933. You notice the maturities in June 1933 in the hands of the public are only \$1,250,000.

Mr. PECORA. Now, in the prospectus which accompanied the second issue of \$10,000,000 of these serial certificates I observe the following statement, under the caption "general." [Reading:]

The present population of the Republic of Cuba is estimated in excess of three and a half million. The total funded debt of the Republic as of the end of the fiscal year June 30, 1928, was \$93,443,600, of which \$83,379,300 was external. The floating indebtedness as of the same date amounted to ap-



proximately \$4,500,000. During the 6 fiscal years ended June 30, 1928, the ordinary revenues of the Government exceeded the ordinary expenditures by over \$23,000,000.

Is that a correct statement?

Mr. MORGAN. It is a statement derived from the Secretary of the Treasury of the Republic of Cuba.

Mr. PECORA. Is that a correct statement, is what I asked you.

Mr. MORGAN. We understood so at the time.

Mr. PECORA. Have you since ascertained that it was not?

Mr. MORGAN. No.

Mr. PECORA. These certificates were listed on the New York Stock Exchange eventually, were they not?

Mr. MORGAN. No; they never were, Mr. Pecora?

Mr. PECORA. Not the certificates—the bonds which afterward were issued were so listed?

Mr. MORGAN. The bonds were listed.

Mr. PECORA. What is the date of listing of the bonds?

Mr. MORGAN. July 21, 1930.

Mr. PECORA. Have you a copy of the listing application?

Mr. MORGAN. I have.

Mr. PECORA. What statement is made in that listing application concerning the revenues and the expenditures of the Republic of Cuba for the 4 years ending June 30, 1928?

Mr. MORGAN. The comparison that you have in mind to make, I think, has to do with 6 years, not with 4.

Mr. PECORA. Will you be good enough to answer my question, Mr. Morgan?

Mr. MORGAN. You would like to have the revenues and expenditures as given in this list read?

Mr. PECORA. I would like to have the revenues and expenditures for the 4 fiscal years ending June 30, 1928, as they are set forth in the listing application for the bonds made to the New York Stock Exchange in 1930.

Mr. MORGAN. The fiscal year 1924-25——

Mr. PECORA. No; you have not got it in that listing application, have you, for those 2 years?

Mr. MORGAN. 1924 to 1925?

Mr. PECORA. Yes.

Mr. MORGAN. Yes. That is June 30, 1925, at the top of page 5.

Mr. PECORA. What is the number of the listing application to which you are now referring?

Mr. MORGAN. A-9477. The identification number is 55-2.

Mr. PECORA. What page are you reading from?

Mr. MORGAN. Page 5, the top of page 5.

Mr. PECORA. All right. Go ahead.

Mr. MORGAN. The first column is for the year ending June 30, 1925. Revenue, \$93,402,502.93; expenditures, \$96,027,484.19.

Mr. PECORA. So, that year the expenditures exceeded the revenues by over two and a half million?

Mr. MORGAN. Yes.

Mr. PECORA. Go ahead.

Mr. MORGAN. 1925-26, starred as an estimate. Revenues, \$87,398,174.79; expenditures, \$87,347,161.32. 1926-27, also starred as an esti-

mate. Revenues, \$80,344,820.95; expenditures, \$81,698,105.89. 1927-28, also starred as an estimate. Revenues, \$82,001,483.21; expenditures, \$82,892,555.06.

Mr. PECORA. Stop there for a moment, will you? For those 4 fiscal years ending June 30, 1928, which were the 4 years immediately prior to the issuance and the sale to the public of these \$20,000,000 worth of serial certificates, the expenditures exceeded the revenues, did they not?

Mr. MORGAN. Yes.

Mr. PECORA. By what amount, approximately?

Mr. MORGAN. About 3.7 to 4 million.

Mr. PECORA. It was over by more than \$4,000,000, was it not?

Mr. MORGAN. No, I think not.

Mr. PECORA. All right. There was an excess of expenditures over revenues for those 4 fiscal years immediately prior to the issuance of these \$20,000,000 of certificates to the public, of several million dollars.

Mr. MORGAN. Except for the second of the years, when there was a slight surplus.

Mr. PECORA. A slight surplus, which was only estimated.

Mr. MORGAN. Yes. The rest of it is estimated too.

Mr. PECORA. Where did you get your information from, that caused you to say to the public, in the prospectus marked "Committee's Exhibit No. 45", that during the 6 fiscal years ending June 30, 1928, the ordinary revenues to the Government exceeded the ordinary expenditures by over \$23,000,000, if there was an actual deficit for the last 4 fiscal years of that period?

Mr. MORGAN. From the Secretary of the Treasury, as you will see at the top of the prospectus. And I should like to state at this point, Mr. Pecora, for the sake of those who may want to compare this listing with the figures which I read into the record at the beginning of my testimony yesterday morning, that the difference between the tabulation given then and the figures given now is due to the inclusion in the listing statement figures, of certain transfers and reimbursements which were not included in the tabulation I gave you. That is stated merely for the sake of statisticians who may make an attempt to compare the two statements.

Mr. PECORA. Have you before you the data received, from any source whatsoever, whether from the Treasury Department of the Republic of Cuba or any other source, that caused you to say in this circular issued to the public, or that justified the statement contained in this circular or prospectus that—

During the 6 fiscal years ended June 30, 1928, the ordinary revenues of the Government exceeded the ordinary expenditures by over 23 million dollars.

Mr. MORGAN. I have seen those figures, but I do not know just where they were.

Mr. PECORA. In what form were they contained?

Mr. MORGAN. In the form of calculations, telegrams, and so forth.

Mr. PECORA. Do you know whether anything was done to verify those figures at any time before this prospectus was put out?

Mr. MORGAN. Yes; a great effort was made to verify those figures, and they were given out with every confidence in their accuracy.

Mr. PECORA. Well, just tell what the effort was, who made it, and what it resulted in.

Mr. MORGAN. Through the Chase Securities office, I gathered this from the records.

Mr. PECORA. Well, refer to the records so you won't have to give it to us from memory.

Mr. MORGAN. No. I am giving it to you from a record which I haven't got here but which I refer to, a file in the bank at New York. I have seen numerous memoranda of calculations there, inquiries, letters I believe 1 or 2 telegrams, between New York and Habana, verifying those figures.

Mr. PECORA. Have you those records here?

Mr. MORGAN. No; I have not.

Mr. PECORA. Where are they?

Mr. MORGAN. In New York.

Mr. PECORA. Didn't you consider that those records might be inquired into in the course of your examination in regard to these loans?

Mr. MORGAN. Well, we brought down a good many, you know.

Mr. PECORA. But you left those out? I say, but you left this out.

Mr. MORGAN. Certainly, but not deliberately. I did not suppose you wanted this. Our files have been open to you.

Mr. PECORA. I know, and I have not characterized it in any way to the contrary.

Mr. MORGAN. Very good.

Mr. PECORA. Have you by any chance among your records a memorandum or statement bearing the name of one of your associates, Mr. Adam K. Geiger, dated October 27, 1931, which is captioned:

#### REPUBLIC OF CUBA, DEBT SITUATION

This memorandum is based on the hypothesis that we must deal with the Cuban situation solely as bankers, without receiving effective aid from Washington. Furthermore, it is assumed that until after January 1, next, the Continental interests will not precipitate matters by a refusal to continue the status quo.

Have you a copy of such a statement or record?

Mr. MORGAN. I have.

Mr. PECORA. Will you turn to it, please?

Mr. MORGAN. I have it.

Mr. PECORA. On the fourth page thereof, now, do you find in this statement of Mr. Geiger, the following. [Reading:]

General budget operations of the Government have, in each of the past 5 fiscal years (1926-27 to 1930-31) resulted in a deficit, the aggregate for the period amounting to some 21 million dollars. These deficits have, in part, been liquidated by the transfer of amounts from the public-works fund. The prospects point to another deficit at the end of the current fiscal year. The Treasury balance at the end of August was dangerously low.

Do you find that in Mr. Geiger's report?

Mr. MORGAN. I do.

Mr. PECORA. Now, apparently, Mr. Geiger found that the general budget operations of the Republic of Cuba for each of the fiscal years on June 30 from 1926-27 to 1930-31 resulted in a deficit. He says nothing about the preceding 2 fiscal years.

Mr. MORGAN. Yes.



Mr. PECORA. Do you know whether he got that from the same data from which you claim that this statement in the prospectus referring to an excess of revenues over expenditures for the 6 years up to and including June 30, 1928, amounted to over 23 million dollars?

Mr. MORGAN. He got it from the same source, but whether from the same data or not I cannot tell you. He got it from the Treasury Department in Habana.

Mr. PECORA. Did you get 2 sets of figures, or more than 2 sets of figures, from the Treasury Department of Cuba?

Mr. MORGAN. No. But you will notice that those figures are marked estimates, and several of those years—and it is customary in those countries for budgetary figures of receipts and expenditures to be adjusted in relatively small amounts, sometimes as late as a year or 2 years thereafter, and that I assume would account for any minor differences, if there be such. That is the reason why I did not want to testify that Mr. Geiger arbitrarily used figures which might have made the others antiquated by the time he made up this memorandum to me.

Mr. PECORA. Let us see, Mr. Morgan. In January of 1929 Chase Securities Corporation issued the prospectus that has been received in evidence as committee exhibit no. 45, in connection with the second issue of 10 million dollars face value of these public works serial certificates, and in that prospectus it informed the public that during the 6 fiscal years ended June 30, 1928, the ordinary revenues of the Government exceeded the ordinary expenditures by over 23 million dollars. It also appears that in the application to list the bonds on the New York Stock Exchange, made in 1930, for the 4 fiscal years ending June 30, 1928, figures were given showing that the expenditures exceeded the revenues by three or four million dollars. Now, where did you get your information, or where are your figures which, in the light of what I have just pointed out to you from your own records, justified the statement in the prospectus that for the 6 fiscal years ending June 30, 1928, revenues exceeded expenditures by over 23 million dollars?

Mr. MORGAN. There are two essential difficulties in reconciling those figures. One is that you are comparing a 6-year period with a 4-year period and, second—

Mr. PECORA (interposing). Give me the figures.

Mr. MORGAN. And the second is, that the figures printed in the listing statement are total revenues and total expenditures. While the figures given in the prospectus are specifically stated as ordinary revenues and expenditures.

Mr. PECORA. Well, heretofore I have tried to find out from you, or from some of your associates, if you recognized any difference between ordinary revenues and special revenues, and, apparently, they were treated as the same thing.

Mr. MORGAN. I testified yesterday as to the difference between earmarked revenues and extraordinary revenues and ordinary revenues.

Mr. PECORA. Now, as a matter of fact whether they be referred to as ordinary revenues, or special revenues, or both, did the expenditure, or I mean did the revenues rather for the six fiscal years ending June 30, 1928, of the Republic of Cuba exceed the expenditures by over 23 million dollars?

Mr. MORGAN. It was so stated by the Secretary of the Treasury, and I did not go back of those figures, because I have nothing here to verify them either one way or the other.

Mr. PECORA. You are certain, however, that in your special study of this subject that you came across such information or advice of an official character from the Secretary of the Treasury of the Republic of Cuba.

Mr. MORGAN. I came across, from the Secretary of the Treasury, numerous figures which were memoranda, documents, letters, and so forth, from our Habana branch, which had been received from the Treasury Department in Habana.

Mr. PECORA. Well, among those figures were there advices or data that informed you specifically the revenues for those six fiscal years did exceed the expenditures by over 23 million dollars? Have you now any such recollection as that?

Mr. MORGAN. I wasn't with the Chase National Bank in 1928, so that I could not be informed of those figures at that time.

Mr. PECORA. Have you in mind now the figures which you saw and in connection with your special study of this subject, a study made by you in the last few weeks, which conveyed that information to you?

Mr. MORGAN. There was nothing in those figures which excited any doubt in my mind that the statement was not correct.

Mr. PECORA. Was there anything in those figures which specifically confirmed the statement contained in the prospectus?

Mr. MORGAN. I will not testify from memory on that, if you please.

Mr. PECORA. Can you produce records here tomorrow from the office in New York, or have them brought down here?

Mr. MORGAN. I can try to do that.

Mr. BISBEE. Mr. Pecora, Mr. Batchelder was personally concerned in getting information from the Cuban Treasury of that character. I think he can tell you more about that particular phase of it than Mr. Morgan.

Mr. PECORA. Well, I started to examine Mr. Batchelder on this whole subject yesterday morning. I only diverted from him to Mr. Morgan at the earnest behest of you and your associates.

Mr. BISBEE. I have no fault to find. I merely made that statement for your information.

Mr. MORGAN. Mr. Batchelder at that time testified that he was personally familiar with the 1930 bond issue.

The CHAIRMAN. Isn't it true that this term "expenditures" is somewhat misleading? In other words, it may be correctly stated that the expenditures of a government for a certain fiscal year were so much, and that means the amount that they actually paid out for the year. But that isn't the same thing as saying that their expenses were that much. In other words, they might have been in debt for other expenses than those covered by the actual payments.

Mr. MORGAN. And that shows the great complication of public finances. You are quite right, Senator Fletcher.

The CHAIRMAN. In other words "expenditures" means what they paid out, but that word does not mean that their expenses were not more than their expenditures.

Mr. MORGAN. Yes. And I indicated that, if you will remember; with respect to some of the late figures.

The CHAIRMAN. So I understood.

Mr. PECORA. Do you know what is meant by the statement at the top of Mr. Geiger's memorandum on the debt situation of the Republic of Cuba, dated October 27, 1931, to which I have already made reference, where he said [reading]:

This memorandum is based on the hypothesis that we must deal with the Cuban situation solely as bankers, without receiving effective aid from Washington.

Do you know what Mr. Geiger meant by that?

Mr. MORGAN. Well——

Mr. PECORA. If you do not, or if you have any doubt about it, I will ask Mr. Geiger, who is sitting right by you.

Mr. MORGAN. I am looking at the date of this memorandum.

Senator COUZENS. Mr. Geiger is the best witness anyhow on that subject. He is here.

Mr. PECORA. Suppose you answer that, Mr. Geiger. What did you mean when you said on this memorandum of yours, dated October 27, 1931:

This memorandum is based on the hypothesis that we must deal with the Cuban situation solely as bankers, without receiving effective aid from Washington.

Mr. GEIGER. At that period we had witnessed several defaults on the part of foreign governments. You will find further along in that memorandum an amplification of that statement, pointing out the importance of not allowing any default to occur in the debt because without the assistance, without the use of diplomatic channels, it might be very difficult to reestablish payment.

Senator COUZENS. I am at a loss to understand what Mr. Geiger means by diplomatic channels being used to secure the payment of debts to private individuals.

Mr. GEIGER. I do not recall all the defaults, but certainly there were 3 or 4, and perhaps more, countries in default in their obligations held by the American public at that time. And I think, as I said, Mr. Pecora, you will find that statement elaborated in the text of that memorandum.

Senator COUZENS. Well, let us have the elaboration.

Mr. PECORA. Will you look at this photostatic reproduction that I now show you and tell us if it is a true and correct copy of the report you made on the debt situation of the Republic of Cuba under date of October 27, 1931, and from which I have briefly read?

Mr. GEIGER. That is correct.

Mr. PECORA. Mr. Chairman, I offer it in evidence and ask that it may be spread on the record of the subcommittee's hearings.

The CHAIRMAN. Let it be received, and the committee reporter will make it a part of the hearing.

(A photostatic reproduction of a memorandum dated Oct. 27, 1931, and headed "Republic of Cuba, Debt Situation", was marked "Committee Exhibit No. 46, Oct. 24, 1933", and will be found on page 2674.)

Mr. PECORA. Now, Mr. Geiger, will you call my attention, please, to the portion or portions of your report which has been received in



evidence as committee exhibit no. 46, which constitutes what you have referred to as an elaboration of the statement which is headed:

This memorandum is based on the hypothesis that we must deal with the Cuban situation solely as bankers, without receiving effective aid from Washington.

Mr. GEIGER. On page 5, roman side heading, III; subtitle, General considerations.

Mr. PECORA. Do you mean the entire matter that appears under that subheading?

Mr. GEIGER. The first paragraph.

Mr. PECORA. Or do you mean only a part thereof?

Mr. GEIGER. The first paragraph is the pertinent part, and the first thing—

Senator COUZENS (interposing). Why not let him read it?

Mr. PECORA. I will read it if he will tell me what he desires me to read.

Mr. GEIGER. That first paragraph under section III, General considerations.

Mr. PECORA. It is as follows:

If at all possible a complete default on the part of Cuba ought to be avoided. Political conditions on the island are very unsettled and there seems little hope for an improvement in the near future. How much longer Machado can continue in power is problematical; he is holding office on a day-to-day basis, dependent solely on his army for support. Once in complete default, particularly if in the meantime the present government should fall, it might be difficult without the help of Washington to work out a satisfactory refunding plan. On the other hand, notwithstanding that apparently a reasonable amount of "new money" will tide Cuba over, the facts as we understand them hardly warrant a recommendation that further funds be advanced for the purpose of meeting the June 30, 1932 maturity. Barring a quick economic (and political) turnabout, further difficulties will have to be faced in the 1932-33 fiscal year.

Is that what you referred to?

Mr. GEIGER. Yes.

Senator COUZENS. I am unable to see yet how that is an elaboration upon the effective aid of Washington. I do not understand that our State Department participated in refunding operations of foreign countries with private bankers.

Mr. GEIGER. That is quite true. I was referring to their aid in refunding.

Senator COUZENS. Well, that was to be an elaboration upon effective aid. And what I am trying to get at now is, what effective aid you expected from Washington.

Mr. GEIGER. My statement there was, once they were in complete default.

Senator COUZENS. Well, then, assuming that they were in complete default, what effective aid did you expect from Washington?

Mr. GEIGER. We had seen, as I explained a moment ago, several defaults on the part of foreign governments, and none of those foreign governments had resumed payment.

Senator COUZENS. Well, still I do not see what that has to do with Washington.

Mr. GEIGER. Well, apparently the State Department had not helped any one of them to resume payment.

Senator COUZENS. Did you expect them to do it?

Mr. GEIGER. I think diplomatic representations might at some time be of help. I do not know. I haven't had any experience with that.

Senator COUZENS. Then what made you think of effective aid from Washington, if you had had no experience in that regard?

Mr. GEIGER. Because Washington certainly has the diplomatic representatives of foreign countries.

Senator COUZENS. Do you know of any incident where the diplomatic representative in Washington from a foreign country has aided private bankers in refunding arrangements?

Mr. GEIGER. No; I don't believe I have.

Senator COUZENS. I am anxious to know what put that in your mind, about getting effective aid from Washington.

Mr. GEIGER. Well, Senator Couzens, it is rather difficult to clearly state it. The thought is this—

Senator COUZENS (interposing). It is clearly difficult for me to understand it.

Mr. GEIGER. The thought is this, that once a borrower has ceased payments, it is very, very difficult to have those payments reestablished, and purely as private interests we cannot make the representations as effective as the diplomatic representative of the Government. Now, whether or not that has ever been done I don't know. I do know that I had before me at the time I wrote this memorandum the fact that several foreign governments were in default.

Senator COUZENS. But when you wrote that memorandum had you any record or information that anywhere diplomatic relations had been used to secure a refunding agreement?

Mr. GEIGER. I don't think I had any specific thing in mind, or I mean any specific instance in mind.

Senator COUZENS. That was a peculiar twist of mind, it seems to me, that one should expect the State Department to interfere through diplomatic channels to secure a refunding agreement with a foreign country.

Mr. GEIGER. If you will permit, I did not refer to a refunding agreement. It was the question of reestablishing payments.

Mr. WILLIAMS. He probably felt—

Mr. PECORA (interposing). Mr. Williams, don't you think Mr. Geiger can probably tell better how he felt himself?

Senator COUZENS. I want Mr. Geiger to state how he felt.

Mr. WILLIAMS. I think I felt somewhat like he did.

Mr. PECORA. Well, did you write a memorandum about it?

Mr. WILLIAMS. No. But sometimes when American citizens have investments in foreign countries and defaults occur in respect of those investments, we feel, as taxpayers and citizens of the country, that we have a perfect right to look to our own Government without it assuming any responsibility or obligation in connection with it, to lend its friendly offices in connection with aiding our citizens to collect our debts. We would think it is a very reasonable thing for any American citizen or American taxpayer, whether a citizen or not, to look to his Government for its friendly offices on an occasion of that kind. But I do not think any of us felt that the State Department was under obligation, or that it assumes any responsibility, in

connection with the matter. It is merely a matter of our Government at least showing that it feels its citizens are entitled to consideration.

Senator COUZENS. Had you made any representations to the State Department so as to receive a negative answer, that you would not get effective aid?

Mr. GEIGER. We did not.

Senator COUZENS. Did you know that you would not get effective aid in event you had made any such representations?

Mr. GEIGER. I did not say that, but that—

Senator COUZENS (interposing). What did you say?

Mr. GEIGER. I stated that the memorandum was based upon the supposition that we must do this thing alone.

Senator COUZENS. What fact did you have in mind upon which to base an assumption that you would not get effective aid in Washington?

Mr. GEIGER. I did not assume it. I said that if we go ahead and handle this thing without—

Senator COUZENS (interposing). Did you expect the American Government to send the Marines down to help you collect your refunding?

Mr. GEIGER. No, sir.

Mr. WILLIAMS. On the contrary, if there should be any substantial defaults in connection with this Cuban indebtedness we certainly will come to Washington and present the situation.

Senator COUZENS. Well, I assume you have just observed that the President is reported to have deliberately made the statement that the Government as such will take no part in securing refundings or consideration of defaults in bonds in foreign countries.

Mr. WILLIAMS. No; I did not. I have been so busy in connection with this investigation that I haven't read the papers fully recently.

The CHAIRMAN. I understood the statement was that you should proceed without aid at Washington.

Mr. MORGAN. Mr. Pecora, this is what—

Mr. PECORA (interposing). Mr. Morgan, are you now going to attempt to explain what was in Mr. Geiger's mind?

Mr. MORGAN. No. Mr. Geiger has been able to explain it fully without my aid. But this was an internal memorandum in the office from Mr. Geiger to me soon after I took over the responsibility for the Cuban financing, and was an introduction to me of the difficulties of this situation, and he built it upon the assumption, as he clearly stated, that this was the way we should proceed, assuming that no aid would come from Washington. And I think he was pretty safe in saying that.

Senator COUZENS. Well, when a man assumes something he must have something upon which to base it.

Mr. MORGAN. Well, sometimes you write a two-legged memorandum of what you would do if you had everything your own way, and what you would do if you did not have it your own way.

Senator COUZENS. This seems to be more than a two-legged memorandum.

Mr. MORGAN. It is a one-legged arrangement.

Mr. WILLIAMS. We should keep in mind that this is merely a memorandum expressing the personal views of Mr. Geiger in regard to this subject and that it does not necessarily represent the official



position of the Chase National Bank. I want to make that perfectly clear. And, in the second place, up to the present time Cuba has made an excellent record in looking after her debt obligations, and we hope she will continue to do so in the future. These serial certificates which have been inquired into during today's session have been paid in full, with the exception of \$867,000 which the banks are now carrying pending the clearing up of conditions in Cuba. Interest on the \$40,000,000 of bonds outstanding in the hands of the public has been paid promptly when due to June 30, 1933, and the next payment will be December 31, 1933. Those obligations are not in default. The \$20,000,000 credit which these banks hold in accordance with their interests—

Mr. PECORA (interposing). Let me interrupt you for a moment about the Republic of Cuba having met its interest payments on its obligations. Isn't it a fact that those interest payments have been met out of loans made to the Cuban Government by the Chase National Bank?

Mr. WILLIAMS. In part; yes.

Mr. MORGAN. But those loans have been paid off, except for an amount of \$867,000 which we have testified to from the beginning.

Mr. PECORA. Was the public that held those certificates informed that that interest was met by money loaned by the Chase National Bank?

Mr. MORGAN. It was stated in the newspapers at the time; yes, sir.

Mr. PECORA. Was the public so informed?

Mr. MORGAN. Could you ask a better means of informing the public than the columns of the daily newspapers? The Cuban Government stated it at the time.

Mr. PECORA. I should like to have the newspaper announcements that you refer to, Mr. Morgan.

Mr. MORGAN. I will endeavor to find them.

Mr. PECORA. That is what you call meeting its obligations, borrowing money to meet those obligations?

Mr. MORGAN. Those obligations have been paid, and the public has been paid in full, and it is one of the most constructive jobs done in connection with foreign financing.

Mr. PECORA. But the public has been paid out of moneys advanced by the Chase National Bank.

Mr. MORGAN. That money has been paid.

Mr. PECORA. Was the public paid its interest on those certificates out of moneys that were loaned for that purpose by the Chase National Bank to the Republic of Cuba?

Mr. MORGAN. I—

Mr. PECORA (continuing). And can't you answer that question "yes" or "no"? Does it require a speech for you to make an answer? [Laughter.]

Senator COUZENS. Well, the committee knows.

Mr. MORGAN. I will not answer "yes" or "no" unless I can give the facts. The case was different in each of these three instances. If you would like to have me give you the situation in each of the three instances I will be glad to do so. But in some cases the answer would be "yes" and in some cases the answer would be "no."

Mr. PECORA. I will go into that tomorrow. It is now after 4 o'clock, Mr. Chairman.

Mr. MORGAN. All right.

Mr. PECORA. Do you know the market quotations on those bonds today?

Mr. MORGAN. I should imagine—well, I won't say that.

Mr. PECORA. Well, what?

Mr. MORGAN. I don't know.

Mr. PECORA. Does anybody in your crowd know? Somebody I believe here said they were around 26.

Mr. BISBEE. It was stated here yesterday that the market quotation was about 30.

The CHAIRMAN. And the public paid 98½.

Mr. MORGAN. I beg your pardon, Senator Fletcher.

The CHAIRMAN. Did the public pay 98½?

Mr. MORGAN. 98.

The CHAIRMAN. That is all for today. The subcommittee will now stand in recess until tomorrow morning at 10 o'clock.

(Whereupon, at 4:15 p.m., Tuesday, Oct. 24, 1933, the committee adjourned to meet at 10 o'clock the following morning.)

#### COMMITTEE EXHIBIT No. 46 OCTOBER 24, 1933

##### REPUBLIC OF CUBA—DEBT SITUATION

This memorandum is based on the hypothesis that we must deal with the Cuban situation solely as bankers, without receiving effective aid from Washington. Furthermore, it is assumed that until after January 1, next, the Continental interests will not precipitate matters by a refusal to continue the status quo.

##### I. THE PROBLEM

The problem is to determine what, in the face of an almost certain shortage in public works revenues, may be done to insure the payment by Cuba on June 30, 1932, of principal and interest on the public works obligations in the hands of the public and to meantime liquidate the bank credit of \$20,000,000. The problem is complicated by two principal factors:

(A) Maturity and interest payments on public works obligations falling due in the succeeding fiscal year (ending June 30, 1933) amount to \$14,146,090, a sum probably greater than may be expected to be produced by the public works taxes during the next year.

(B) Treasury notes in the amount of \$20,000,000 delivered to American and Cuban contractors have a lien junior to the bank credit (and bonds) and any alteration in the form of the credit may serve to advance the lien of the treasury notes. These notes mature June 30, 1935.

##### II. DEBT AND REVENUE POSITION

Based on the actual income during the first 3 months public works taxes may be expected to produce \$9,700,000 for the current fiscal year ending June 30, 1932. Exclusive of the principal of the credit the payments to be made during the year amount to \$12,686,875 made up as follows:

Item	Dec. 31, 1931	June 30, 1932
Maturing serial certificates.....	<sup>1</sup> \$2,250,000	\$6,250,000
Interest on serial certificates.....	<sup>2</sup> 508,750	378,125
Interest on \$40,000,000 bonds.....	1,100,000	1,100,000
Interest on \$20,000,000 credit.....	550,000	550,000
Total.....	4,408,750	8,278,125

<sup>1</sup> After crediting \$4,000,000 of anticipated payments.

<sup>2</sup> After deducting interest on \$1,500,000 certificates purchased up to July 1, 1931.

A minimum shortage in loan service requirements for the current fiscal year of not less than \$3,000,000 is forecasted.

If we presume to assume any improvement in Cuban conditions it might not be too optimistic to expect collections from the public works taxes in succeeding years of:

Fiscal year:	Total anticipated collections
1932-33 -----	\$11,000,000
1933-34 -----	11,500,000
1934-35 -----	12,000,000
1935-36 -----	12,500,000
Total -----	47,000,000

against which scheduled payments (again excluding the principal of the credit) amount to:

Fiscal year	Principal	Interest	Total service
1932-33 -----	\$7,500,000	<sup>1</sup> \$6,646,090	\$14,146,090
1933-34 -----		4,600,000	4,600,000
1934-35 -----	<sup>2</sup> 20,000,000	4,600,000	24,600,000
1935-36 -----	<sup>3</sup> 4,000,000	<sup>4</sup> 2,145,000	6,145,000
Total -----	31,500,000	17,991,090	49,491,090

<sup>1</sup> Including interest of \$2,935,000 on treasury notes.

<sup>2</sup> Maturity of treasury notes \$20,000,000.

<sup>3</sup> A amortization beginning this year on \$40,000,000 of bonds.

<sup>4</sup> Not including interest on the bank credit.

In total the forecast of revenues for the fiscal years, 1932-33, 1935-36 inclusive shows a small shortage as compared with the scheduled payments and taken year by year there are some large shortages viz:

1932-33 (deficit) -----	\$3,146,090
1933-34 (surplus) -----	6,900,000
1934-35 (deficit) -----	12,600,000
1935-36 (surplus) -----	6,355,000

Net deficit for the period ----- 2,491,090

It is seen that the year 1932-33 shows a shortage of approximately \$3,000,000 and the year 1934-35 due to the maturity of the treasury notes, shows a shortage of approximately \$12,000,000. Undoubtedly the notes could be extended or allowed to go past due without any great harm. Therefore, the shortage to be considered is that likely to develop in the next fiscal year and it would seem from the figures presented that a reasonable amount of "new money" would see Cuba through and permit repayment of the credit within the next 4 years.

Including the December 31, 1931, maturity of serial certificates there is a principal amount of public works obligations of \$96,000,000 to be dealt with. These obligations in the order of their rank are:

(a) \$16,000,000 of serial certificates secured by first lien on 90 percent of the public works revenues. These certificates mature:

Dec. 31, 1931 -----	\$2,250,000
June 30, 1931 -----	6,250,000
Dec. 31, 1932 -----	6,250,000
June 30, 1933 -----	1,250,000

(b) \$40,000,000 of public works bonds due June 30, 1945, secured pari-passu with the bank credit, subject to the serial certificates, on 90 percent of the public works revenues.

(c) \$20,000,000 bank credit secured pari-passu with the bonds, subject to the serial certificates, on 90 percent of the public works revenues.



(d) \$20,000,000 of Treasury notes due June 3, 1935, secured (in part) by lien, subject to the lien granted to the Chase National Bank, on 90 percent of the public works revenues.

In addition to the public works obligations, Cuba has outstanding approximately \$62,000,000 (excluding the \$42,000,000 sugar stabilization loan) of external loans (Morgan & Speyer), and \$8,964,000 of funded internal loans. Beginning with the next calendar year the service of the funded internal loans requires an amount of not exceeding \$450,000 yearly. The annual services on the external loans is:

Year	Approximate amortization	Approximate interest	Total service
1931-32	\$3,713,000	\$3,299,583	\$7,012,583
1932-33	3,796,500	3,139,383	6,935,883
1933-34	3,920,000	2,989,433	6,909,433
1934-35	4,045,000	2,832,283	6,877,283
1935-36	4,181,500	2,658,333	6,839,833

The Morgan and Speyer loan service is payable in the main in monthly installments. This service has been covered in the past and, so far as data upon which to base an opinion are available, is now being covered, with a margin, by the pledged revenues. With the single exception of the Serial Loan of 1927, due \$900,000 annually (July 1), all of these loans are secured by liens on customs duties and other special revenues and by claims on general revenues. The serial loan is unsecured. Total loan service does not represent an exorbitant percentage of the present budget of \$48,000,000 to \$50,000,000 or even of the present actual income, at the rate of \$45,000,000 to \$48,000,000 yearly.

There are no details of the floating debt available but it is thought to approximate some \$25,000,000 on general account and some \$4,000,000 on public works account, or approximately \$30,000,000 in total.

General budget operations of the Government have, in each of the past 5 fiscal years (1926-27 to 1930-31) resulted in a deficit, the aggregate for the period amounting to some \$21,000,000. These deficits, have, in part, been liquidated by the transfer of amounts from the public-works fund. The prospects point to another deficit at the end of the current fiscal year. The treasury balance at the end of August was dangerously low.

### III. GENERAL CONSIDERATIONS

If at all possible a complete default on the part of Cuba ought to be avoided. Political conditions on the Island are very unsettled and there seems little hope for an improvement in the near future. How much longer Machado can continue in power is problematical; he is holding office on a day to day basis, dependent solely on his army for support. Once in complete default, particularly if in the meantime the present Government should fall, it might be difficult without the help of Washington to work out a satisfactory refunding plan. On the other hand, notwithstanding that apparently a reasonable amount of "new money" will tide Cuba over, the facts as we understand them hardly warrant a recommendation that further funds be advanced for the purpose of meeting the June 30, 1932, maturity. Barring a quick economic (and political) turnabout, further difficulties will have to be faced in the 1932-33 fiscal year.

The attempt to issue some form of scrip or serial bond for the voluntary extension of a part or all of the maturities of public works obligations of the next 2 fiscal years, is likewise hardly to be recommended. The holders of the serial certificates have a first lien on the public works taxes and these taxes are producing approximately enough at the present time to cover the certificates. The holders would, therefore, probably be reluctant to exchange the certificates for some other obligation unless furnished with an equal, or approximately equal lien on other equally good governmental revenues. The Government has not such unpledged revenues.

The Government can meet its interest payments. These interest payments amount to:

Fiscal year	Public works obligations	Morgan & Speyer
1931-32.....	\$4,428,125	\$3,299,583
1932-33.....	6,646,090	3,139,383
1933-34.....	4,600,000	2,989,433
1934-35.....	4,600,000	2,832,283
1935-36.....	2,145,000	2,658,333

<sup>1</sup> Not including interest at the bank credit.

A moratorium on sinking fund and principal payments to enable us to deal effectively with the debt situation would appear desirable and especially so if such moratorium were to include all debt of the country.

#### IV. SUGGESTED POLICY

The public works law of July 15, 1925, provides in article XV: A credit of up to five million pesos (\$5,000,000) shall be included annually in the general budget of the nation, beginning with the fiscal year of 1926-27, and 50 percent of all surplus after covering the expenditures authorized by said budget, and the payment of interest and amortization of the public debt of the Republic in accordance with its contracts. And article 97 of the regulations stipulates that such credit is to be transferred in monthly installments to the public works fund. So far as I am aware, this credit has never appeared in the budget. On the contrary, amounts have been transferred from the public works funds to the general budget. We might consider, therefore, the advisability of making it a condition of a further extension of the credit that a sufficient portion of the \$5,000,000 to meet the expected deficit in the public works revenues be included in the budget.

The inclusion of such an item in the general budget might be opposed by the Morgan & Speyer interests; it might well happen also that the insistence on the inclusion would precipitate the declaration of a general moratorium by Cuba, thus affording the opportunity to deal with the debt as a whole rather than only in part as now appears may be necessary. Whether, however, a moratorium comes by reason of the insistence on the inclusion of such item in the budget or as a result of the inability of Cuba to continue meeting her payments, it is my opinion that—

(1) The public works law expiring on June 30, 1945, should be extended for a period of 20 to 30 years.

(2) A refunding issue secured by a first lien upon all taxes now pledged to the several loans (including the public works taxes) should be set up. This issue would be subject to weekly or monthly payments, have a life of say 30 to 40 years, bear interest at 5½ percent, and the sinking fund would operate by purchase or drawings with the right on the part of the bankers to apply sinking-fund moneys monthly.

(3) This issue would be exchanged for the present outstanding bonds on an agreed-upon basis recognizing the priorities of the various issues. In the case of the public works obligations, for example: First lien, serial certificates exchanged at 102½ for 100; second lien, long-term bonds exchanged at 101¼ for 100; second lien, bank credit exchanged at 101¼ for 100; third lien, Treasury notes exchanged at par; general creditors —.

(4) The unissued \$40,000,000 of public works bonds would be canceled.

Under such a plan as that outlined we would find ourselves holding a long-term bond at a cost of about 99 taken in payment of a short-term obligation. It would not, however, seem to be an extreme hope that with a sinking-fund provision such as suggested the market for the new issue could be maintained at or very near par. If so, the possibility of liquidating our holdings within a reasonable period would be good.

#### A. LOAN TO REFUND ALL DEBT

In round figures the external debt amounts to a minimum of approximately \$160,000,000, made up of Morgan & Speyer loans about \$62,000,000; public works obligations, \$96,000,000; total, \$158,000,000.

It is quite possible that the floating debt might also have to be included in any refunding operation and, in such event, the total debt would be increased to approximately \$190,000,000. As shown elsewhere in this memorandum total external loan service requirements for the fiscal year 1932-33 amount to \$21,158,673 to cover Morgan & Speyer loans, \$7,012,583; public works obligations, \$14,146,000; total, \$21,158,673.

During the fiscal year 1930-31 the pledged taxes produced (based on incomplete reports), not less than \$47,938,000 made up of—

Morgan & Speyer Loans-----	\$34, 538, 000
Public-works taxes-----	13, 400, 000
Total-----	47, 938, 000

Not all this total can be used for loan service; the Government must live. Assuming therefore a decline of 25 percent in these revenues and the use of not exceeding 50 percent of the collections as security for loan service, an amount of \$17,975,000 would be available for pledge. A \$200,000,000 thirty-five-year, 5½-percent loan with 1 percent accumulative sinking fund would call for an annual payment of \$13,000,000. This charge shows a reduction of \$8,000,000 in loan-service requirements as contrasted with the 1932-33 figures. Furthermore this charge would represent a burden of 26 percent on a total Government income from all sources of \$50,000,000 (apparently a most conservative estimate) and would leave the Government some \$37,000,000 for ordinary running expenses.

#### B. LOAN TO REFUND PUBLIC WORKS DEBT ONLY

If it is not possible to deal with the external debt as a whole, the refunding issue must provide for a total of approximately \$100,000,000 (including the floating debt) of public-works obligations. An issue of the character described in the amount of say \$110,000,000 would require an annual payment of \$7,150,000 for a 35-year, 5½-percent plus 1 percent sinking-fund loan.

Revenues for the current year, as stated, will produce some \$9,700,000 and it does not seem unreasonable to believe that these revenues may be expected to produce an average of say \$12,000,000 annually, this latter figure providing for a coverage of better than one and one half times the annual requirements. This service charge of \$7,150,000 shows an increase as compared with present requirements for the fiscal years 1933-34 and 1935-36 and as compared with the normal charge of the outstanding \$40,000,000 of bonds from the year 1935-36 forward; it shows a substantial reduction as compared with the normal requirements on the full \$80,000,000 of bonds, assuming the remaining \$40,000,000 should be issued. The margin of coverage is none too good; two times the actual requirements would be better and it may be that we could induce the Government to pledge additional revenues of some character.

ADAM K. GEIGER.

OCTOBER 27, 1931.



# STOCK EXCHANGE PRACTICES

WEDNESDAY, OCTOBER 25, 1933

UNITED STATES SENATE,  
SUBCOMMITTEE OF THE COMMITTEE  
ON BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to adjournment on yesterday, at 10 a.m., in the caucus room of the Senate Office Building, Senator Duncan U. Fletcher presiding.

Present: Senators Fletcher (chairman), Gore (substitute for Barkley), Adams (proxy for Costigan), Couzens, Townsend, and Goldsborough (substitute for Norbeck).

Present also: Ferdinand Pecora, counsel to the committee; Julius Silver and David Saperstein, associate counsel to the committee; and Frank J. Meehan, chief statistician to the committee; Martin Conboy, counsel for Albert H. Wiggin; Eldon Bisbee, Alfred E. Mudge, A. M. Williams, Joseph B. Lynch, Julian L. Hagen, and C. Horace Tuttle, of Rushmore, Bisbee & Stern; and also William Dean Embree and A. Donald MacKinnon, of Millbank, Tweed, Hope & Webb, counsel for The Chase National Bank and The Chase Corporation.

The CHAIRMAN. The subcommittee will come to order. Mr. Pecora, you may proceed.

Mr. PECORA. I will ask that Mr. Morgan resume the stand this morning.

## TESTIMONY OF SHEPARD MORGAN, NEW YORK CITY, A VICE PRESIDENT OF THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK—Resumed

Mr. PECORA. Mr. Morgan, in the course of your examination yesterday you were asked a number of questions concerning the prospectus that was issued by Chase and its associates in connection with the offering of the two series of serial certificates, each of the face value of \$10,000,000. Your attention was called particularly to the statement in the prospectus reading as follows:

During the 6 fiscal years ending June 30, 1928, the ordinary revenues of the Government exceeded the ordinary expenditures by over \$23,000,000.

Have you been able since you were on the stand yesterday to obtain from your records, or any other sources available to you, information, figures, data, which would justify or support that statement contained in the prospectus?

Mr. MORGAN. Before I answer that question explicitly, Mr. Pecora, may I make one or two points by way of preliminary to this phase of the examination, picking up the evidence of yesterday—

Mr. PECORA (interposing). Well, won't you just answer this question now and then make your statement?

Mr. MORGAN. I would rather do it the other way round, if you don't mind.

Mr. PECORA. Just answer this question, and then go ahead with your statement.

Mr. MORGAN. Yes; I have the material here.

Mr. PECORA. All right. You have the material here to support that statement?

Mr. MORGAN. Yes.

Mr. PECORA. All right. Now, before I ask you to produce the material you may go ahead and make the statement you have in mind.

Mr. MORGAN. Thank you. The circular which you have in mind and on which you have been questioning me is a circular issued on January 29, 1929, with respect to a public issue of \$10,000,000 of public-works 5½-percent serial certificates. The security behind that issue were the revenues segregated into the public-works fund. Those revenues are stated in detail on the face of the circular, both as to the net amount collected since the beginning of the public works law and the official estimates at the same time. In each case the amount collected was in excess of the official estimates. And I repeat that it was those revenues which were the security for the issue.

I desire now to make the second point, that this issue of \$10,000,000 advertised in this circular has been repaid to the public in full.

Now, I come to the phrase which you asked me to reconcile with the prospectus, or rather the listing application—

Mr. PECORA (interposing). No. I asked you about the statement contained in the prospectus.

Mr. MORGAN (continuing). With respect to another operation carried out a year later. Between the prospectus and the listing application there is little inherent relevancy for the two reasons which I stated yesterday: The circular refers explicitly to ordinary revenues of the Government, while—

Mr. PECORA (interposing). One moment. Let me go back and ask the committee reporter to repeat to me the last sentence of Mr. Morgan.

(Which was done.)

Senator ADAMS (interposing). Just a second. A day or two ago there was some discussion here as to what constituted ordinary revenues. Now, aren't you making a distinction which you did not make then?

Mr. MORGAN. I do not think so.

Senator COUZENS. Mr. Chairman. I should like to ask if it is not a matter for the committee's judgment to determine whether those are relevant or not, and not for the witness.

Mr. PECORA. That is the observation I made yesterday.

The CHAIRMAN. That is quite true, but the witness is pointing out the difference between conditions as they were at one time and another.

Mr. MORGAN. I thank you, Senator Fletcher.

The CHAIRMAN. I do not think he refers to the technical question as to whether the evidence is relevant or not to the issue before the subcommittee, but whether it is relevant to the other matter to which he refers.

Mr. MORGAN. I thank you, Senator Fletcher.

Senator COUZENS. Well, I think he might make his statement without attempting to decide whether it is relevant or not.

Senator ADAMS. Mr. Morgan, weren't you distinguishing between those allocated public works revenues and the other tax revenue?

Mr. MORGAN. Senator Adams, the other day I was saying—

Senator ADAMS (interposing). I mean now isn't that what you are doing?

Mr. MORGAN. No. I am not doing it now.

Senator ADAMS. Then I misunderstood you.

Mr. MORGAN. I am talking now about a distinction between ordinary revenues of the budget as referred to in this circular and in the supplementary and secondary position, which secondary and supplementary position is that which the examiner has called to your attention, namely, the budget revenues as distinguished from the segregated revenues in the public-works fund.

The CHAIRMAN. I think if we will let the witness complete his statement we will get a better idea of what he has in mind.

Mr. MORGAN. I thank you, Senator Fletcher.

Mr. PECORA. All right. Go ahead.

Mr. MORGAN. I was saying that the reference in the circular is to the ordinary revenues of the Government and the ordinary expenditures of the Government. The reference in the listing application is to the total revenues and the total expenditures of the Government. There is, necessarily, in all Government accounting a difference between those two classifications of revenues and expenditures on the one side, and revenues and expenditures on the other, because the movement of the public debt, capital expenditures, and I mean c-a-p-i-t-a-l expenditures—

Senator ADAMS (interposing). That is a wise distinction in connection with Cuba, I gather. [Laughter.]

Mr. MORGAN (continuing). Because capital expenditures appear in the stock exchange listing applications, whereas the debt movement, either rising or falling, service on debt, does not appear in the ordinary revenues, either as income as I explained very early in my testimony, or in expenditures as I now apply that term.

So I want to indicate again that these are two different things, two different things, gentlemen of the committee—the statement made in the circular and the statement made in the stock exchange listing application.

In the second place, reference in the circular is over a 6-year period, and if my memory serves me the reference in the stock exchange listing application is over a 4-year period. So I submit, always subject to the committee's decision on this point, that these two statements are not strictly comparable.

Now, I have here in Spanish and in English a letter from the Secretary of the Cuban Treasury, under date of September 21, 1928, some 5 months before the circular in question, or rather some 4 months I should say, before the date of the circular in question, which has the following language:

During the 5 fiscal years which terminated on the 30th day of June 1927 the ordinary receipts of the Government exceeded the ordinary expenditures by more than \$22,500,000.



Mr. PECORA. Will you let me ask you a question about that right here: The circular with respect to which I questioned you yesterday and from which I read again this morning, in which the statement is contained that the ordinary receipts exceeded the ordinary expenditures by over \$23,000,000, is the one that was put out in January 1929 on the occasion of the sale to the public of the second series of the serial certificates?

Mr. MORGAN. Quite true.

Mr. PECORA. Having face value of \$10,000,000?

Mr. MORGAN. Quite true.

Mr. PECORA. The statement that you have just read from the letter referred to by you was embodied word for word, was it not, in the circular or prospectus which your people put out to accompany the offering of the first series of \$10,000,000 face value of serial certificates?

Mr. MORGAN. Yes; in 1928.

Mr. PECORA. In other words, in that circular you said, among other things——

Mr. MORGAN (interposing). After reciting the public-works revenues.

Mr. PECORA. You say there [reading]:

During the 5 fiscal years ended June 30, 1927, the ordinary revenues of the Government exceeded the ordinary expenditures by over \$22,500,000.

Mr. MORGAN. Correct. That was the statement contained in the signed letter of the Secretary of the Treasury from which I just read.

Mr. PECORA. Have those figures ever been verified?

Mr. MORGAN. May I continue just a minute?

Mr. PECORA. Mr. Morgan, I think we will make more progress if you will submit to examination and answer questions and then make whatever statement you want to make.

Mr. MORGAN. Well, I am simply finishing up, Mr. Pecora, the \$23,000,000 to which the circular under examination referred.

Mr. PECORA. Go ahead.

Mr. MORGAN. I hold in my hand a photostat copy of an original letter in Spanish and an English translation signed by the Secretary of the Treasury which answers two questions; the first relating to the revenues of the public works, which I understand not to be desired here. [Reading:]

Question B. By how much did the normal revenues exceed the normal expenditures of the Government during the fiscal year which ended on June 30, 1928?

The answer of the Secretary of the Treasury to the question which had been put to him in those words was [reading]:

The normal revenues calculated for the fiscal years 1927 and 1928 were \$80,988,000, and the collections effected for account of these calculated revenues was \$81,972,288.39.

So that an excess of collection of \$984,288.39 was produced. The normal expenses calculated for the fiscal year were \$80,940,801.71, an excess of a million dollars.

Mr. PECORA. Which exceeded normal revenues?

Mr. MORGAN. The normal revenues showed a surplus of \$1,000,000.

Mr. PECORA. Didn't you say the normal revenues were some \$80,000,000?

Mr. MORGAN. The normal expenses were some eighty million nine hundred thousand.

Mr. PECORA. What were the normal revenues?

Mr. MORGAN. \$81,972,000.

Mr. PECORA. You mentioned an earlier figure of \$80,000,000. What did that relate to?

Mr. MORGAN. That was a budget estimate of revenues.

Mr. PECORA. Are you through with the statement you wanted to make on this proposition?

Mr. MORGAN. That added to the \$22,500,000 roughly makes more than the 23 millions which the circular says was the excess of ordinary revenues over ordinary expenditures.

Mr. PECORA. Now, let me ask you again: Have the figures that you have read from the letter of the Secretary of the Treasury in Cuba ever been confirmed by any of your people?

Mr. MORGAN. By putting accountants on his books, and that is—

Mr. PECORA (interposing). In any way at all, Mr. Morgan, have they ever been confirmed? In other words, have you ever ascertained whether or not the statement that the normal revenues for the 5 fiscal years ending on June 30, 1927, or for the 6 fiscal years ending on June 30, 1928, exceeded the expenditures by over \$22,500,000 in the first instance and by over \$23,000,000 in the second? Have you ever obtained any confirmation of those figures?

Mr. MORGAN. I must tell you, Mr. Pecora, that all of this affair was long before my association.

Mr. PECORA. You made a special study of this subject in order to be examined before this committee on it.

Mr. MORGAN. My associates tell me that such studies were currently made.

Mr. PECORA. Who told you that?

Mr. MORGAN. I have in my possession some masses of figures which have come over from New York last night, but I have not had an opportunity to find out what the details show.

Mr. PECORA. Have you among your masses of figures or documents at the present moment a copy of the report or statement of Mr. Geiger dated October 27, 1931?

Mr. MORGAN. Yes.

Mr. PECORA. The one that was referred to during your examination yesterday afternoon?

Mr. MORGAN. Yes.

Mr. PECORA. Now, Mr. Geiger says in that report, does he not, as follows, from the fourth page:

General budget operations of the Government have in each of the past 5 fiscal years, 1926-27 to 1930-31, resulted in a deficit, the aggregate for a period amounting to some \$21,000,000. These deficits have in part been liquidated by the transfer of amounts from the public-works fund?

Have you got that report before you? The number is 61-48-A.

Mr. MORGAN. Yes, Mr. Pecora.

Mr. PECORA. That was prepared by one of your associates after, I presume, an intensive study by him of the Cuban debt situation which he made sometime prior to October 27, 1931. Does it not appear from Mr. Geiger's own study, the results of which were embodied in this report, that the general budget operations of the

Cuban Government were resulting in a deficit practically every year during the 4 or 5 years immediately prior to the issuance of these serial certificates to the public?

Mr. MORGAN. Mr. Geiger's figures again are presumably the total revenues.

Mr. PECORA. Why do you say that, Mr. Morgan, when Mr. Geiger's figures themselves relate, in his own language, to "the general budget operations"?

Mr. MORGAN. Quite true; the debt service.

Mr. PECORA. Why do you presume that "general budget operations" includes special revenues and special capital expenditures?

Mr. MORGAN. I did not. No; it is debt service, Mr. Pecora.

Mr. PECORA. Well, I want to get from you—

Mr. MORGAN (interposing). The revenue was an ordinary revenue.

Mr. PECORA. I want to get from you if you can give it to this committee the figures which justify the statement contained in these circulars that you issued to the public when you offered these 20,000,000 dollars of serial certificates—

Mr. MORGAN (interposing). Which have now been paid. All right.

Mr. PECORA. Now, please let me finish the question without injecting into it an element that does not form a part of it. I am going to come to the question of the payment of these serial certificates before very long, and you will have every chance to tell this committee all you want to about their payment, when they were paid, and how they were paid, because I happen to know something about it too.

Mr. MORGAN. Good. I supposed you had finished. Excuse me.

Mr. PECORA. All right. Please answer the question—and I will repeat it for your benefit. What have you to show that the statements made in the circular or prospectus issued in October 1928 by the Chase Securities Co. on the occasion when it offered for sale to the public \$10,000,000 worth of these public works 5½ percent serial certificates, where you said in the prospectus "during the 5 fiscal years ended June 30, 1927, the ordinary revenues of the Government exceeded the ordinary expenditures by over \$22,500,000"?

Mr. MORGAN. The evidence is precisely as the circular states it.

Mr. PECORA. Where is the evidence?

Mr. MORGAN. If you will read the first line in the circular and following that you will see the following (reading):

The following information regarding these certificates is from information furnished by His Excellency, Santiago Guiterrez de Celis y de la Cruz, Secretary of the Treasury of the Republic of Cuba, and other official sources.

Mr. PECORA. Is that all you can show in proof of the accuracy of the statement in the prospectus that I have read?

Mr. MORGAN. The statement in the prospectus is directly related to that statement, and the evidence which I have already given to the committee supports completely that statement.

Mr. PECORA. What evidence are you referring to?

Mr. MORGAN. The letter signed by the Secretary of the Treasury which I have already put in evidence.

Mr. PECORA. Then you are taking the Secretary's figures or the Secretary's statement embodied in that letter as proof of the statement itself. are you?



Mr. MORGAN. The Republic of Cuba is a sovereign government, Mr. Pecora.

Mr. PECORA. And that means that the Secretary of the Treasury was somehow or other incapable of giving you any false or erroneous information, does it?

Mr. MORGAN. Are we entitled to go behind the statement of a sovereign government?

Mr. PECORA. I do not know what you are entitled to do. I want to know what you did. Did you confirm those figures? Did you confirm that statement?

Mr. MORGAN. I offer in evidence a transcript from the published statement of the Accountant General of the Treasury, which gives the movement general of funds in the year 1927-28, which was the basis of the second letter which I read.

Mr. PECORA. Will you please not jump so fast? Let us confine ourselves now to this first prospectus. What proof have you got or what proof did you ever have that the statement in that prospectus to the effect that during the first 5 fiscal years ending June 30, 1927, the ordinary revenues of the Government exceeded the ordinary expenditures by over 22½ million dollars?

Mr. MORGAN. The evidence which is recited in the circular itself. Must I repeat it?

Mr. PECORA. Do you mean that letter from the Secretary of the Treasury?

Mr. MORGAN. Exactly what the circular says.

Mr. PECORA. Do you mean the letter of the Secretary of the Treasury referred to in the circular?

Mr. MORGAN. Exactly as the circular says.

Mr. PECORA. Mr. Chairman, would you be good enough to ask this witness to answer simple questions yes or no?

The CHAIRMAN. I do not see why you cannot answer that, Mr. Morgan.

Mr. MORGAN. Well, Senator, I am under oath here, and questions are sometimes put to be answered yes or no which involve an implied falsehood, and I cannot do that.

Mr. PECORA. What is there about this question that you cannot answer yes or no?

Mr. MORGAN. I have answered your question, Mr. Pecora, as to the sources of our information in our circular, which were stated in the circular itself.

Mr. PECORA. What proof have you, what proof can you show this committee, that you ever had in your possession or which you have gathered in connection with your special study of this subject that shows that the ordinary revenues of the Republic of Cuba for the 5 fiscal years mentioned in that prospectus exceeded the ordinary expenditures by over 22½ million dollars?

Mr. MORGAN. The official statement of the Secretary of the Treasury of the Republic of Cuba.

Mr. PECORA. Is that the letter that is referred to in the prospectus itself?

Mr. MORGAN. The official statement made by——

Mr. PECORA (interposing). Is that the letter that is referred to?

Mr. MORGAN. Precisely; yes.

Mr. PECORA. Thank you very much for the answer.

The CHAIRMAN. You mention in the circular this letter, and I think you referred to other public officials.

Mr. MORGAN. Other official sources.

The CHAIRMAN. Other official sources; yes.

Mr. MORGAN. Here is the statement of the Accountant General of the Republic of Cuba, and other things here about the population of the island of Cuba.

Mr. PECORA. The population had nothing to do with the statement concerning the excess of revenues over expenditures, did it? The population of Cuba does not prove that the revenues exceeded the expenditures, does it?

Mr. MORGAN. Mr. Pecora, excuse me; I was responding to the Senator's question.

Mr. PECORA. Now will you please respond to my question? Does the population of Cuba have anything to do with proving that the revenues exceeded the expenditures for any given period?

Mr. MORGAN. Obviously not.

Mr. PECORA. All right.

Senator COUZENS. May I ask when you first secured that statement that you have held in your hand from the accountant general, that you have in front of you there?

Mr. MORGAN. January 24, 1929. At least so it was attached to the letter. It was submitted along with it.

Mr. PECORA. Have you no proof of the accuracy of that statement in the prospectus that was put out in October 1928 other than the letter of the Secretary of the Treasury from which you got that statement?

Mr. MORGAN. Mr. Pecora, I cannot answer that question yes or no. I have to say that undoubtedly at the time there were concurrent studies made in our office and in Habana. I was not here myself. It was some two years and a half before I had anything to do with this financing. So I do not know explicitly what occurred. I simply offer in evidence the documents which went to support my statement of yesterday and the statement in the circular.

Mr. PECORA. Have you any documentary proof of the making of those concurrent studies at the time of the issuance of these two prospectuses?

Mr. MORGAN. The various loose memoranda which I have not had the opportunity to analyze overnight. They arrived early this morning.

Mr. PECORA. Do you know who made those studies at the time?

Mr. MORGAN. No, I do not. Some of them were unsigned.

Mr. PECORA. Do you now believe that the statement contained in that circular was a truthful statement?

Mr. MORGAN. I do.

Mr. PECORA. And an accurate statement?

Mr. MORGAN. I do.

Mr. PECORA. Give me the data upon which you base that belief, will you?

Mr. MORGAN. I have already done so, the letter of the Secretary of the Treasury.

Mr. PECORA. Then you believe it is true because what the Secretary of the Treasury said in that respect was said by him? That is the substance of it, is it not?

Mr. MORGAN. Quite true.

Mr. PECORA. And you regard that proof, that the proof of the accuracy of the statement is the making of the statement itself? That is your idea of proof, is it?

Mr. MORGAN. We had the right to rely upon the principal financial official of a sovereign government, and that is all that was said that we did rely upon.

Mr. PECORA. Then if the Secretary of the Treasury had told you that the moon was made out of green cheese you would have believed it and accepted it without any proof at all, merely because he said it?

Mr. MORGAN. Certainly not.

Mr. PECORA. Well, it is just as logical as what you say you did.

Mr. MORGAN. Would you rely—I would rely upon the published statement of the Secretary of the Treasury of the United States.

Mr. PECORA. Then was Mr. Geiger all wrong when he made a study of the Cuban debt situation and reported to the Chase in October 1931 that there were deficits in those years in which you claim that there were surpluses?

Mr. MORGAN. The figures are not comparable.

Mr. PECORA. The figures are not comparable?

Mr. MORGAN. No.

Mr. PECORA. The statements that Mr. Geiger made in his special report in October 1931 that the general budget operations resulted yearly in a deficit are not comparable to the statement in the prospectus that for 4 or 5 or 6 fiscal years the revenues exceeded the expenditures by many millions of dollars?

Mr. MORGAN. You are taking a statement made, I believe, in 1931—

Mr. PECORA. Yes.

Mr. MORGAN. And comparing it with a statement made in 1929, and the 1929 statement went back 6 years and the 1931 statement went back 4.

Mr. PECORA. But both included a part of the period of time referred to in the prospectus?

Mr. MORGAN. The prospectus does not say that within this period of 6 years there was no year in which there was not a deficit. It is a totally different matter, and the budget figures themselves as given by Mr. Geiger were, as I understand it, total figures including the service of the debt, whereas I explicitly stated, as I must say over and over again, the figures given in the circular were ordinary revenues.

Mr. PECORA. They were quite ordinary.

Mr. MORGAN. The ordinary revenues and ordinary expenditures.

Mr. PECORA. Now, Mr. Morgan, in putting out this prospectus to the public it was put out for the purpose of inducing the public to purchase these serial certificates, was it not?

Mr. MORGAN. It was.

Mr. PECORA. And you think it a fair and reasonable thing to require bankers who offer securities to the public to make truthful statements concerning the securities, don't you?

Mr. MORGAN. Certainly.

Mr. PECORA. And where the statements are made not upon the knowledge of the issuer but upon information furnished by some-



body else, do you think it is an unreasonable thing to expect the issuer to check up those statements before passing them on to the public as true?

Mr. MORGAN. I have no doubt they were checked, using the words not in the strict accounting sense.

Mr. PECORA. Well, can you tell me by whom they were checked, and can you show me—

Mr. MORGAN (interposing). No; I cannot.

Mr. PECORA. Can you show me any memorandum, anything in writing whatsoever that shows that they were checked?

Mr. MORGAN. I have already testified that we have received a large number of documents from New York, but I have not yet had opportunity to examine them. I have already presented the immediately relevant documents.

Mr. PECORA. That is what you think is immediately relevant documents.

Mr. MORGAN. What we said we had in the circular to present.

Mr. PECORA. The first \$10,000,000 of these serial certificates matured as follows: \$6,250,000 worth on December 31, 1931, and the remaining \$3,750,000 worth on June 30, 1932. Do you find that correct?

Mr. MORGAN. Quite; yes.

Mr. PECORA. And of the second series, the additional \$10,000,000 issue of these serial certificates, which was made in January 1929, the maturities thereof were as follows: 2½ million dollars matured on June 30, 1932, 6¼ million dollars matured on December 31, 1932, and \$1,250,000 worth matured on June 30, 1933. Do you find those figures correct?

Mr. MORGAN. Yes, Mr. Pecora.

Mr. PECORA. What became of the other \$30,000,000 worth of the serial certificates that came into existence as the result of the second stage of those financing operations, which has been referred to here as the revolving credit of \$60,000,000?

Mr. MORGAN. I testified yesterday that they were held by the participating banks in proportion to their participations.

Mr. PECORA. That is right. And you also testified yesterday, as I recall, that the maturities of those certificates were subsequent to June 30, 1933, with the exception of \$5,000,000 worth?

Mr. MORGAN. Yes.

Mr. PECORA. Which also matured on June 30, 1933?

Mr. MORGAN. Yes.

Mr. PECORA. Have these \$50,000,000 worth of serial certificates been paid?

Mr. MORGAN. \$20,000,000 have been paid. To which do you refer, the total 50?

Mr. PECORA. The total 50.

Mr. MORGAN. Yes; they have all been paid except \$867,000.

Mr. PECORA. Which were paid first, those held by the bankers or the \$20,000,000 worth which was sold to the public?

Mr. MORGAN. They were refunded.

Mr. PECORA. Which were refunded or paid first?

Mr. MORGAN. The later maturities.

Mr. PECORA. The later maturities were paid first. And by the "later maturities" you mean those held by the bankers?

Mr. MORGAN. They were refunded.

Mr. PECORA. You mean those held by the bankers?

Mr. MORGAN. They were refunded. Yes; the ones held by the bankers. The notes or the certificates held by the public had no redemption feature in them and could not be called before maturity.

Mr. PECORA. How about the \$30,000,000 worth of these same serial certificates that were held by the Chase and its associates?

Mr. MORGAN. They could be turned back by negotiation.

Mr. PECORA. Was there any provision in the certificates to that effect?

Mr. MORGAN. They were all held by the bankers, and the owner of them can deal with them as he likes.

Mr. PECORA. Was there any provision in the agreement under which those serial certificates were issued that entitled the holders of those \$30,000,000 worth, namely, the bankers, to turn them in for redemption or refunding before the \$20,000,000 worth that have been sold to the public could be so redeemed or refunded?

Mr. MORGAN. There was nothing in the agreement about it.

The CHAIRMAN. Let me ask you, did the Securities Corporation obtain the money from the banks with which to acquire these certificates as a loan made by the banks to the Securities Corporation?

Mr. MORGAN. I do not believe I quite understand your question. To which certificates do you refer, Senator?

The CHAIRMAN. These certificates you are talking about.

Mr. MORGAN. The 20,000,000 or the 30,000,000?

The CHAIRMAN. Yes; both of them. The 30,000,000 that they kept; that is what I want to know.

Senator COUZENS. The Senator asked the question whether or not the 30,000,000 that you kept you secured the money from the banks for the Securities Corporation?

Mr. WILLIAMS. No; in respect not only of the 30,000,000 but also the 20,000,000 sold to the public, that money paid over to the contractors for the account of the Government of Cuba was put up by the various banks in accordance with their respective participations. The Chase Bank put up its share. Blair & Co. put up their part and each of the other participants put up its part.

The CHAIRMAN. That is what I mean.

Mr. PECORA. The Chase Securities Corporation and the Chase National Bank as a unit put up 13½ million of that additional \$50,000,000 credit that completed the revolving credit of \$60,000,000.

Mr. WILLIAMS. That is my recollection.

Mr. PECORA. Blair & Co., Inc., put up another 13½ million of that \$50,000,000; the Equitable Trust Co. put up another 13½ million of that \$50,000,000; and the balance of \$10,000,000 was put up by the Continental Corporation, which was the affiliate of the Continental National Bank.

Mr. MORGAN. No. It was put up by the Continental National Bank itself.

Mr. PECORA. By the bank itself?

Mr. MORGAN. Yes.

Mr. PECORA. That was brought out yesterday. Now, after the issuance of these serial certificates to an aggregate amount of \$50,000,000, \$20,000,000 of which were sold to the public and the other \$30,000,000 of which were retained by the bankers, the group whose names I have just mentioned, financial embarrassments arose in the Republic of Cuba, isn't that so?

Mr. MORGAN. I think you are a little ahead of the story, Mr. Pecora.

Mr. PECORA. Financial embarrassments arose after the issuance of these serial certificates and the sale of \$20,000,000 of them to the public. I did not ask you how long after, but there were financial embarrassments after.

Mr. MORGAN. I will admit that there are financial embarrassments in Cuba now.

Mr. PECORA. When did those financial embarrassments first manifest themselves?

• Mr. MORGAN. The best index I can give in answering this question is the actual collections from the public-works revenues, which, up to the middle of 1930, exceeded the estimates which had been made at the time the public works law was passed.

Mr. PECORA. Have you a document that is designated as 56-54-A among your files? It is captioned "memorandum" and is dated May 21, 1929. [After a pause:] Have you found the memorandum among your records to which I refer?

Mr. MORGAN. I have that.

Mr. PECORA. Who prepared that memorandum?

Mr. MORGAN. It is unsigned.

Mr. PECORA. Have you anything to indicate who the author of it is?

Mr. MORGAN. Nothing.

Mr. PECORA. Have any of your associates been able to tell you who the author of this memorandum is?

Mr. MORGAN. I am informed that it was probably prepared by Mr. Frank Callahan.

Mr. PECORA. That is a gentleman who is now dead?

Mr. MORGAN. Yes.

Mr. PECORA. Did you see this memorandum in the course of the special study you made of the subject of these Cuban loans?

Mr. MORGAN. I saw a brief digest of it; yes.

Mr. PECORA. Did you read this memorandum?

Mr. MORGAN. No; I did not.

Mr. PECORA. You did not read it at all?

Mr. MORGAN. No.

Mr. PECORA. Suppose we start and read part of it now. Look on the first page thereof, in the second paragraph. Do you find that that paragraph reads as follows? [Reading:]

The Government, however, consider that they will not be able to carry on the public works that they have in mind, take care of their budgetary requirements, and at the same time meet the serial certificates at their respective maturities. They estimate, to take care of their budget they will desire to transfer \$9,000,000 per year, at least for a while, from the estimated \$18,000,000 of collections under the public works law.

Do you find that statement?

Mr. MORGAN. I do.



Mr. PECORA. Having in mind the fact that this memorandum is dated May 21, 1929, does not that statement indicate to you that financial embarrassments began to develop prior to May 21, 1929, or within 4 months after the Chase Securities Corporation and its associates sold to the public the second issue of those \$10,000,000 of serial certificates?

Mr. MORGAN. No; I should not, Mr. Pecora, and for this reason. You see, the reference is explicitly to the public-works program.

Mr. PECORA. No. Reference is also to the budgetary requirements.

Mr. MORGAN. Yes; that is true.

Mr. PECORA. Do not ignore the other.

Mr. MORGAN. All right. But, of course, it has to do, as the memorandum is itself headed, with the Cuban financing.

Mr. PECORA. Yes. We know that.

Mr. MORGAN. The first reference is to the doubt on the part of the Government that they would be able to carry on their public-works program and at the same time manage these large annual maturities set up under the serial-certificates plan. The maturities, as you remember, were large, amounting to \$12,500,000 every fiscal year, with revenues of \$18,000,000 plus, as they existed at this time. There was not very much margin left after the years 1931, 1932, and 1933.

Mr. PECORA. Not very much margin left in what?

Mr. MORGAN. In the public works funds, to prosecute the public works program. Furthermore, as I myself stated in a memorandum which I drew up later, at the very introduction of my study into this thing, into the Cuban financing, these very large maturities were difficult to manage, and it proved to be so. Accordingly the problem was to break down these long maturities and throw them forward into future years. The reason—

Mr. PECORA. Now, you are going too far ahead. We will get to that future stage in due course. Let us confine ourselves for the time being to the financial situation that apparently existed on May 21, 1929, in the Republic of Cuba, and then we will pass on to the far distant scene that you are talking about now. In this second paragraph of this memorandum the statement is specifically made that the Government would not be able to carry on the public-works program it had in mind, and would not be able to take care of the budgetary requirements and at the same time meet the serial certificates at their respective maturities, and the Government further estimated that, to take care of their budget—not these public-works expenses, but to take care of their budget—they wanted to transfer \$9,000,000 a year out of the \$18,000,000 estimated revenues, special revenues provided for by the public-works law of 1925, and which revenues you have already told this committee were segregated for the purpose of meeting the expense of the public-works program. Is not that so?

Mr. MORGAN. Yes.

Mr. PECORA. In other words, in May 1929 the situation had developed in Cuba whereby the Government deemed it advisable or necessary to take out of these special funds provided for by the Public Works Act of 1925, \$9,000,000 out of their annual esti-

mate of \$18,000,000 in order to meet their general or ordinary budgetary requirements. Is not that so?

Mr. MORGAN. It says that they desired to do so.

Mr. PECORA. Yes.

Mr. MORGAN. Which is a very different thing from necessity to do so.

Mr. PECORA. You do not think they desired to do it because it was unnecessary, do you?

Mr. MORGAN. I think that the ambitions of public bodies to spend are almost always without limit.

Mr. PECORA. Do you think in this case that the Government of Cuba was so situated that they wanted to take \$9,000,000 out of this \$18,000,000 special fund annually in order to meet their general budgetary requirements unless there was necessity for it?

Mr. MORGAN. It was an expression of a desire, Mr. Pecora.

Mr. PECORA. Do you think that the desire was without any basis of fact for it?

Mr. MORGAN. It is an expression of desire.

Mr. PECORA. You have said that three times. Please answer the question I put to you about this expression of desire.

Mr. MORGAN. I do not want to speculate on this subject.

Mr. PECORA. Was the Chase doing any speculating on the subject when, in January, they issued these \$10,000,000 of securities to the public?

Mr. MORGAN. They have been paid.

Mr. PECORA. Did I ask you anything about whether they had been paid?

Mr. MORGAN. No; but I would like to impress it upon you.

Mr. PECORA. You have already impressed it upon me, Mr. Morgan, and I am going to give you additional opportunity to impress it further upon me.

Mr. MORGAN. Very good.

Mr. PECORA. I am going to ask you to tell the committee all about their payment, just how they were paid, who put up the money for their payment, and all that, so please be patient until we come to it. Meanwhile, content yourself with the questions immediately addressed to you, won't you please? You know, I have a little cold, Mr. Morgan, and I am sure you have some regard for my tender health.

Senator COUZENS. Was it nothing more than the expression of a desire? Was it not more than a desire?

Mr. PECORA. This memorandum say [reading]:

They estimate, to take care of their budget, they will desire to transfer \$9,000,000 per year, at least for a while, from the estimated \$18,000,000 of collections under the public works law.

Now, referring again to that statement in this memorandum, the fact of the matter is that the \$18,000,000 of collections under the public works law, referred to in this memorandum, were the special revenues created by the Public Works Act of 1925, which were levied for the purpose of enabling the Government to meet the expenditures of this public works program.

Mr. MORGAN. These revenues were not created. They were segregated under the public works law, to carry through the public works.

Mr. PECORA. They were segregated.

Mr. MORGAN. Yes.

Mr. PECORA. In other words, as you used the term the other day, they were earmarked.

Mr. MORGAN. Yes.

Mr. PECORA. This morning you say they were segregated. Were they actually segregated at any time?

Mr. MORGAN. They were segregated in a special account in the Treasury.

Mr. PECORA. Were they actually segregated by being set apart as a trust fund?

Mr. MORGAN. Beginning in 1932 they were.

Mr. PECORA. That was last year.

Mr. MORGAN. Yes.

Mr. PECORA. Before that, they were not segregated or set apart as a trust fund for the purpose of meeting payments under this public works program, were they?

Mr. MORGAN. I do not know whether they were or not. The agreement provided that they should be set up in a special account.

Mr. PECORA. Have you not been able to find out whether they were segregated or set aside in order to meet the servicing requirements of the securities that were issued to take care of the public-works program?

Mr. MORGAN. We understand they were set aside according to the agreement, in a special account.

Mr. PECORA. What was the provision of the agreement with regard to their being so set aside; do you know?

Mr. MORGAN. I have substantially quoted it. While we are looking for this clause in the agreement, Mr. Pecora, I would like to make it clear that what the Cuban Government had in mind at this time, as expressed in this paragraph, was to break down these heavy repeated maturities of serial certificates, spread them over a longer period, and so relieve the public-works program and the general budgetary situation.

Mr. PECORA. When did the Cuban Government express a desire to do that?

Mr. MORGAN. Around this time.

Mr. PECORA. Around May 1929?

Mr. MORGAN. I understand so. There are other memoranda that bear upon the same point.

Mr. PECORA. These serial certificates were provided for by an agreement entered into in July or August of 1928, is that right?

Mr. MORGAN. June 1928.

Mr. PECORA. June 1928. And the Chase interests were a party to that agreement with the Cuban Government in 1928, were they not?

Mr. MORGAN. Yes.

Mr. PECORA. And presumably they had made a pretty careful study of the financial and economic conditions existing in Cuba at that time.

Mr. MORGAN. Yes.

Mr. PECORA. And within a space of less than 1 year thereafter the Cuban Government found these maturities, fixed for these serial certificates, burdensome in the light of their financial condition?



Mr. MORGAN. No; mostly due to the acceleration of the public works program on the expenditure side, not the revenue side, the expenditure side.

Mr. PECORA. The expenditure side was taken care of by these serial certificates, was it not, the moneys furnished by the Chase interests?

Mr. MORGAN. Only in part.

Mr. PECORA. To what extent?

Mr. MORGAN. Wait a minute. I can give you the exact figure, I think after [consulting papers]. Thirty-five percent. That is up to date. It is 35 percent, as we calculate it, of the entire cost of the public-works improvements.

Mr. PECORA. What do you mean when you say up to date? Do you mean up to the present time?

Mr. MORGAN. Yes.

Mr. PECORA. Why project yourself into the end of 1933 when we are dealing with the situation that existed in May 1929?

Mr. MORGAN. You asked me what proportion of the public-works program had been carried out by Chase financing, and I say 35 percent.

Mr. PECORA. I am dealing with the financial condition that developed in Cuba, or what was shown by May 1929 to be existing in Cuba.

Mr. MORGAN. I have answered that. The situation was precipitated by the acceleration of the public-works program.

Mr. PECORA. What acceleration had there been up to May 1929? What acceleration of that program had manifested itself up to May 1929?

Mr. MORGAN. There had been many new contracts let, and much acceleration of the contracts themselves, so that the work was being done very rapidly.

Mr. PECORA. Are you telling me now something that you have ascertained to be the actual fact?

Mr. MORGAN. I have been so informed.

Mr. PECORA. By whom?

Mr. MORGAN. By my associates.

Mr. PECORA. By whom? "My associates" is a very vague and indefinite term. Who gave you that information, and when?

Mr. MORGAN. I cannot trace the individual source of every bit of information I got.

Mr. PECORA. Who gave you that particular information?

Mr. MORGAN. I cannot answer, Mr. Pecora, because I do not remember.

Mr. PECORA. When was it given to you?

Mr. MORGAN. Off and on during the last two years.

Mr. PECORA. Is that the best answer you can make?

Mr. MORGAN. Exactly.

Senator COUZENS. What are the figures that make the acceleration evident?

Mr. PECORA. Have you anything of record to show that that information was correct?

Mr. MORGAN. Yes. We can show the very rapid use of the revolving credit.

Senator COUZENS. Where are the figures?

Mr. PECORA. You are talking about a very rapid use subsequent to May 1929, are you not?

Mr. MORGAN. I should say that it began the year previously.

Mr. PECORA. Mr. Williams, if you think you can testify about this to better advantage than Mr. Morgan, I am perfectly willing to examine you about it. I will let you have your choice.

Mr. WILLIAMS. I am quite prepared to give you any information I have about it.

Mr. PECORA. Do you think you can answer these questions better than Mr. Morgan? I notice you are constantly telling him things after I ask him questions. If you want to testify, and you think you can do it better, I have no objection to examining you. The only reason I am examining Mr. Morgan is because your people insisted upon my doing so on Monday morning.

Mr. WILLIAMS. I am very anxious that Mr. Morgan should give this committee the actual, accurate facts, and if I can be of any assistance to him along that line, I think I am really aiding the committee.

Mr. PECORA. If you think that Mr. Morgan, who, I understand, made a special study of these things, needs prompting now, I would prefer to examine those who prompt him now, because apparently they are in better possession of the facts than Mr. Morgan. I will let you decide that for yourself, Mr. Williams. If you would rather answer these questions than Mr. Morgan—

Mr. WILLIAMS. I am quite willing to state any fact I know under oath, Mr. Pecora.

Mr. PECORA. With regard to these questions that I am now asking Mr. Morgan, or the line of examination I am now conducting with Mr. Morgan, if you think you can answer the questions better than he can, I am perfectly willing to have you take the stand.

Mr. WILLIAMS. I will not make any invidious comparisons between Mr. Morgan and myself, as to whether I can answer questions better than he can or not. If you want me to answer any questions, put your questions and I shall answer them.

Mr. PECORA. Who do you think is best qualified among your people to answer questions along this line?

Mr. WILLIAMS. Among the officials of the bank, you mean?

Mr. PECORA. Among your people, all of them, the bank, the Securities Corporation, associates, or anything you please.

Mr. WILLIAMS. On figures, I should say Mr. Geiger. On legal questions, I should say Mr. Mudge or myself. On general policy of the banking institution, I should say the officers of the bank.

Mr. PECORA. Then why in the world was Mr. Morgan offered here as the witness preeminently qualified to answer questions with regard to those Cuban loans?

Mr. WILLIAMS. As the officer of the bank best qualified to give you the entire story from beginning to end, and not give it to you in installments.

Mr. PECORA. I have to get at it in installments. I cannot ask all the questions in one question, can I?

Mr. WILLIAMS. No; but you can cover the entire story of this Cuban financing through your questions to Mr. Morgan, I should think.

Mr. PECORA. Which I am trying to do, step by step, in chronological order. I am not jumping from 1929 forward to 1933 and then back again to 1929. Mr. Morgan is trying to do that.

Mr. WILLIAMS. I should say the logical story of this financing, which is complicated, would be helpful both to you and to the committee.

Mr. PECORA. I want to get as logical as chronological a story as I can get.

Mr. WILLIAMS. It was for that reason that we offered Mr. Morgan.

Mr. PECORA. All right. Let us continue to examine Mr. Morgan about it, and when Mr. Morgan finds himself unable to answer a question because he has no knowledge sufficient to enable him to answer, let him say on the record "I do not know but I will try to find out from one of my associates." Then the record will show exactly what is going on here.

Mr. WILLIAMS. And in such event, Mr. Pecora, if I do have the facts, within my own knowledge, may I be permitted to tell you what the facts are?

Mr. PECORA. We will get all the facts from any one that you say can give this committee the facts.

Mr. WILLIAMS. I merely want to help you. I do not want a half story to go in.

Mr. PECORA. I want to get the whole story in too.

Mr. WILLIAMS. I know you do, and I am trying to be of assistance to you.

Mr. PECORA. Do you think Mr. Batchelder knows more about these things than Mr. Morgan does?

Mr. WILLIAMS. I should not say so; not about this phase of it you are covering now.

Mr. MORGAN. I was starting to say, Mr. Pecora, a moment ago, that the acceleration of the program began soon after the revolving credit was arranged on June 22, 1928.

Mr. PECORA. What proof have you of that?

Mr. MORGAN. The drawings under that credit.

Mr. PECORA. Where is the record of that?

Mr. MORGAN. The drawings under the \$60,000,000 revolving credit were as follows: Drawings on the first \$10,000,000 began on April 14, 1928, and the last drawing on October 19, 1928, 6 months and 5 days. Under the second \$10,000,000—

Senator COUZENS. Before you get to that, what were the contemplated withdrawals for the first \$10,000,000? You say they were accelerated. You must have had some contemplated withdrawals, if they were accelerated.

Mr. MORGAN. I am attempting to show, Senator, the gradually diminishing period within which these drawings took place under each of the \$10,000,000 units of the revolving fund.

Senator COUZENS. Was there any acceleration in the withdrawals of the first \$10,000,000?

Mr. MORGAN. My evidence does not show that, within this brief period. We can easily break it down and find out.

Senator COUZENS. We want proof of the statement that the withdrawals were accelerated, and we think you ought to submit it.

Senator TOWNSEND. What was the length of time of the drawing of the first \$10,000,000?



Mr. MORGAN. Six months and five days.

Senator TOWNSEND. And of the second \$10,000,000?

Mr. MORGAN. That is what I am coming to.

Senator COUZENS. That is not the point I want to know. You said the withdrawals were accelerated. Were they accelerated in withdrawing the first \$10,000,000?

Senator TOWNSEND. You mean, was there more drawn in the fifth month than the fourth?

Senator COUZENS. I want to know what he means by acceleration. He said the withdrawals were accelerated. I want you to hear the proof of acceleration.

Mr. MORGAN. Senator, we can examine the detailed drawings, and I will be glad to make you a report showing the date of each one, but the evidence, I think, will be clear, in \$10,000,000 units, which is the blanket figure that I have available.

Senator COUZENS. Have you any information there as to what—

Mr. MORGAN. As to what happened within each \$10,000,000 lot? No; I have not.

Senator COUZENS. Let me complete the question, please. You made the statement that the withdrawals were accelerated, and that that caused some of the difficulties.

Mr. MORGAN. Yes.

Senator COUZENS. What were the agreements with respect to withdrawals or which contemplated withdrawals, that make you state that the contemplated withdrawals were accelerated?

Mr. MORGAN. The funds were placed at the disposal of the Cuban Government and they could draw upon them as they chose, within the limits of the contract.

Senator COUZENS. What was the contract as to the withdrawals?

Mr. MORGAN. That is a legal point, and I would like Mr. Williams to state it for the record.

Mr. WILLIAMS. There was no limit of time in the contract within which they could draw down either any part or the total of this money. It was drawn down as required by them in order to meet payments to their construction contractors.

Mr. PECORA. Then there were no accelerations?

Mr. WILLIAMS. I am not prepared to say that. What Mr. Morgan has in mind is that there was acceleration, which is indicated by the rapidity with which the money was drawn down as a whole, not as to any particular fund.

Mr. PECORA. That does not mean that the consummation of the public-works program was accelerated beyond any contractual agreement?

Mr. WILLIAMS. There was no limit—

Mr. PECORA. Then there was no acceleration as that term is ordinarily understood.

Mr. WILLIAMS. No; but the money was drawn down under the contract perhaps more rapidly than was originally contemplated. That I do not know.

Senator COUZENS. Is there not somebody that does know? The statement has been made that withdrawals were accelerated, and we have no proof that they have been accelerated; that is, no proof other than the mere statement.

Mr. PECORA. Mr. Morgan—

Mr. MORGAN. May I complete this?

Senator COUZENS. I do not want him to complete it unless it substantiates the statement that they were accelerated.

Mr. MORGAN. I offer it, Senator, subject to your decision when I have completed, as being relevant to the question.

On the first \$10,000,000 the first drawing was April 14, 1928. The last drawing was on October 19, 1928, a period of 6 months plus.

On the second \$10,000,000 the first drawing was on October 24, 1928. The last drawing was on February 18, 1929, a period of 4 months.

On the third \$10,000,000 the first drawing was on February 20, 1929, and the last drawing on May 13, 1929, a period of under 3 months.

On the fourth \$10,000,000 the first drawing was on May 14, 1929, and the last drawing on June 20, 1929, a period of 1½ months.

You see, the period within which the \$10,000,000 units were being drawn down were being rapidly reduced.

Mr. PECORA. Do you know that these drawings were made for work actually done by the contractors?

Mr. MORGAN. The certificate of the Secretary of Public Works, countersigned by the Secretary of the Treasury, was attached to each one of the deferred payment work certificates that we cashed.

Mr. PECORA. Did the banking interests that floated these serial certificates make any independent investigation of their own for the purpose of ascertaining whether or not these drawings were proper drawings, whether they represented work and materials actually furnished under the public works contract?

Mr. MORGAN. We took the position very early in the proceedings, Mr. Pecora, that we would have no participation whatever in the action of the contractors; that the certification would be that of the Cuban Government or its properly accredited official representatives, and we would pay upon that document.

Mr. PECORA. Without going behind the document?

Mr. MORGAN. It was a document produced by a sovereign government, and we did not go behind it.

Mr. PECORA. And you have never heard of branches of sovereign governments or political subdivisions of sovereign governments indulging in any cases of fraud in regard to public contracts? Have you?

Mr. MORGAN. I do not like that implication.

Mr. PECORA. Have you? I mean that seriously.

Mr. MORGAN. I will not answer a general question of that sort which you mean to apply specifically to this operation.

Mr. PECORA. Do you suppose that the Cuban government or the Cuban people at that time possessed virtues not possessed by anybody else?

Mr. MORGAN. Let us not go into this field of moral speculation.

Mr. PECORA. I prefer to go into it, Mr. Morgan, because you have said that the Chase interests, the banking interests that floated these serial certificates, agreed not to go behind the returns of the public officials down there in regard to the execution of this work and the payments therefor.

Mr. MORGAN. What I said was——

Mr. PECORA. I want to find out if that was deliberately the policy adopted by these banking interests.

Mr. MORGAN. What I said was that we decided that we would have nothing to do with the contracts for this work.

Mr. PECORA. You know, don't you, Mr. Morgan, that the charge has been publicly made that this work cost the Cuban Government at least fifty percent more than it should have? Have you not heard that charge made publicly?

Mr. MORGAN. We advanced 35 percent of the total operation—

Mr. PECORA. Have you not heard that charge made publicly?

Mr. MORGAN. I have heard many charges made publicly.

Mr. PECORA. Have you heard that one made?

The CHAIRMAN. I think you might answer that question.

Mr. MORGAN. Oh, it has been commonly stated by many people, yes—whether responsible or not I do not know. But what I do insist upon at this point is that the payments that were made were on properly accredited certificates from the Cuban Government according to contract and public understanding.

Mr. PECORA. And without stopping to inquire whether those certificates were fraudulent or whether they were honestly issued?

Mr. MORGAN. A banker is not an auditor in this case.

Mr. PECORA. Was not the banker in the position of one who, when he sold those certificates to the American public, owed them the duty at least of seeing that proper use was made of their money?

Mr. MORGAN. The serial certificates sold to the public have been repaid in full, as far as the public is concerned.

Mr. PECORA. I did not ask you anything about their repayment. When I ask you about the repayment of those certificates I am going to expect you to answer with as much freedom as you are answering about it now when you are not being asked about it at all.

Mr. MORGAN. I will be delighted to answer you freely as to that period, because that is the only period of which I have personal knowledge.

Mr. PECORA. But you are put on the stand as one who has made a special study which enables you in addition to personal knowledge, to be examined on the whole subject of these Cuban loans.

Mr. MORGAN. I stated at the outset, and I think you also stated, Mr. Pecora, that I would testify from the records and from such information as I had obtained, as you say, by hearsay.

Mr. PECORA. Among those records do you happen to recall a letter addressed to you, dated December 23, 1931, signed by Mr. Rosenthal, from Habana, Cuba?

Mr. MORGAN. May I have the number?

Mr. PECORA. It is 61-42-A.

Mr. WILLIAMS. While he is looking up that letter, you asked a little while ago for the provision of the agreement requiring that these public works revenues be set aside in a special account. I can give you that reference.

Mr. PECORA. If you will, please.

Mr. WILLIAMS. Article 12 of the agreement of June 22, 1928, which contains the pledge of the public works revenues.

Mr. PECORA. Will you read that article into the record, please, Mr. Williams?



Mr. WILLIAMS (reading):

ARTICLE 12. The work certificates issued by the Republic to contractors and assigned by such contractors to and held by the bank, as provided in the existing agreement, until converted into serial certificates as in this agreement provided, and the serial certificates issued on the conversion of the work certificates as provided in this agreement, shall have and be entitled to, and shall be secured by, and the Republic hereby creates and confers, a first preferential right to 90 percent of the normal estimated revenues to be derived from the taxes and economic resources specified in articles XII to XIX, both inclusive, of the public works law, in and during the fiscal year commencing July 1, 1930, and ending June 30, 1931, and the same preferential right in each subsequent fiscal year of the 10-year period specified in the public works law as the same now exists, until the principal of and interest on all such work certificates and all such serial certificates shall be paid in full, as a special guaranty and security for the payment of such principal and interest as and when the same shall become due and payable in accordance with the terms thereof and of the existing agreement and of this agreement. The Republic also creates and confers a first preferential right to the necessary part of 90 percent of the normal estimated revenues to be derived in each fiscal year of the intervening period prior to July 1, 1930, as a special guaranty and security for the payment as and when due of the installments of interest on such work certificates and such serial certificates accruing in such intervening year, and for the payment of the commissions or compensation payable to the bank in each such year under the terms of the existing agreement and of this agreement for its commitment and services thereunder and hereunder. In order to give effect to such guaranty and security the Republic will set aside in a special account in each fiscal year 90 percent of such revenues or the necessary part thereof as and when collected in such year until the amount so set aside shall equal the amount payable in each year, for principal or, as the case may be, for interest and/or commissions or compensation, and will apply the amount so set aside to the payment of said principal, interest, and/or commissions or compensation when and as the same shall be payable pursuant to the terms of the work certificates and the serial certificates and the provisions of the existing agreement and this agreement.

Mr. PECORA. Thank you, Mr. Williams.

Did you find that letter?

Mr. MORGAN. I have it.

Mr. PECORA. I show you what purports to be a photostatic copy thereof. Will you please look at it and tell me whether you recognize that to be a true and correct copy of such letter?

Mr. MORGAN. I do.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. Let it be admitted.

(The photostatic copy of letter referred to and identified by the witness was marked "Committee's Exhibit No. 47, October 25, 1933.")

Mr. PECORA. The letter in question, which has been marked "Committee's Exhibit 47" of this date, reads as follows:

THE CHASE NATIONAL BANK,  
Habana, Cuba, December 23, 1931.

[Confidential]

Mr. SHEPARD MORGAN,

*Vice President, Main Office, New York City.*

DEAR SHEPARD: Referring to our telephone conversation of this morning, I take pleasure in enclosing herewith two copies of proposed drafts of letters, either of which or a combination of the two the Secretary of the Treasury is prepared to write to this bank if same meets with our approval.

I am also enclosing literal translations of the letters which were made in this office and which I have closely checked. These papers were delivered to

me on plain paper by the accountant of the treasury department who is very close to both the Secretary of the Treasury and President Machado. The letter which I have indicated as no. 1 seems to me very satisfactory in every respect, provided there are no legal objections. It is the opinion of the Secretary of the Treasury that the provisions of article XIV of the bond agreement legally permit the government to make deposits as it stands literally, that the government "will set aside in a special account during each fiscal year the necessary part of 90 percentum", etc., and that if any question should arise he is prepared to have the necessary bill introduced in Congress but is desirous of avoiding such a step if possible.

Please let me have your comment as early as possible, together with any suggested changes or recommendations. The deposit of millions in the bank against semiannual payments due in connection with the external debts of the government would indeed be a constructive step. As you know there has actually been no segregation of special funds in the treasury, and the government from time to time has been compelled to use all funds in evidence to meet budgetary and other pressing payments. It has only been with the greatest difficulty that the government has been able to return funds "borrowed" from the special public works funds.

In order to meet December payments every penny of American currency and of Cuban gold held in the treasury has been delivered to us during the past 15 days against December 31 payments, as a result of which there has been almost an absolute suspension of payments on salaries of Government employees. As the deliveries of the above payments have now been almost completed, the Government is today paying salary arrears to some of the army, Habana police, and others, but such payments are being made exclusively in Cuban subsidiary coin. We are making final arrangements to ship in excess of \$1,000,000 in Cuban gold coin by express steamer of the Ward Line tomorrow. It is also the first shipment of Cuban gold since such coins were struck at the Philadelphia Mint, and in order to keep knowledge from the public of such a large shipment of Cuban gold we are doing all possible to handle the shipment as secretive as possible, and the Government has established a customs censorship in its endeavor to prevent publicity.

With kindest personal regards and best wishes for the holiday season,

Very sincerely,

It is signed by Mr. Rosenthal, second vice president, and the date of it is December 23, 1931.

You learned through this letter and through the telephone conversation that, according to this letter, Mr. Rosenthal had with you on the morning of December 23, 1931, if you did not learn it sooner, that the Government of Cuba had not lived up to those provisions of its loan agreements that were just read into the record by Mr. Williams?

Mr. MORGAN. I did not learn any such thing.

Mr. PECORA. Didn't you?

Mr. MORGAN. No. What the loan agreement says is that these public-works revenues will be set aside in a special account.

Mr. PECORA. All right. What do you think that meant?

Mr. MORGAN. I know what it meant.

Mr. PECORA. What did it mean?

Mr. MORGAN. It meant that it was set up as a fund, not earmarked currency, in a strong box—

Mr. PECORA. Merely an accounting fund?

Mr. MORGAN. Yes.

Mr. PECORA. And commingled with funds generally?

Mr. MORGAN. Quite. As a cash matter; yes.

Mr. PECORA. I thought you said yesterday and the day before that those funds were earmarked. Are funds earmarked when they are commingled with general funds?

Mr. MORGAN. They are when they are set up in a special account.

Mr. PECORA. Is that what you regard as earmarking funds—merely because a bookkeeping entry is made about them?

Mr. MORGAN. When their purpose is satisfied. We were advised by our lawyers that Cuba had lived up to this agreement, and it was for that reason, Mr. Pecora, that I went to Habana in the subsequent January to arrange a—shall I say, a perfection of this program?—whereby the funds should be actually paid over as received, instead of set up in a separate account.

Senator COUZENS. It seems a good thing, to me, that the Chase has gone out of the securities business.

Mr. PECORA. When you said, or when your people said, in the circular or prospectus of October 1928 which has been marked in evidence here as "Committee's Exhibit 44", as follows:

They—

meaning these serial certificates—

are expressly secured by a first preferential lien and a charge to the extent required for payment of principal and interest in each fiscal year on 90 percent of the normal revenues collected from certain banks as provided by the Cuban public works law of July 15, 1925. The Republic agrees to set aside in a special account for each such fiscal year 90 percent of the collections from the pledged revenues until the amount so set aside shall equal the amount required in each year for the payment of principal and interest on these serial certificates—

What information did you mean to give to the investing public?

Mr. MORGAN. Precisely what was stated in the agreement.

Mr. PECORA. Did you mean to tell the American investing public that these serial certificates were offered with this prospectus, that the Cuban Government had merely set up on its books as a special account 90 percent of these revenues to be derived from the public-works fund created by the law of 1925, or did you mean to tell the public that those funds were actually being set aside or segregated or put in a special fund in order to meet payment of servicing charges on these serial certificates? What did you mean to tell the public about that?

Mr. MORGAN. A reference to the contract would show that.

Mr. PECORA. The contract was not given to the public in this prospectus, was it?

Mr. MORGAN. It was published.

Mr. PECORA. Are you saying that seriously, Mr. Morgan, that the contract was public?

Mr. MORGAN. I said it was published.

Mr. PECORA. Do you mean to tell the committee by that statement that the American investing public had available to it the terms of this contract merely because it was a matter of public record down in Habana, Cuba?

Mr. MORGAN. Mr. Williams tells me—

Mr. PECORA. Now, please answer my question with regard to what you meant in the answer you made a moment ago. Do not tell me what Mr. Williams said about that, please.

Mr. MORGAN. If application had been made to us, we would have been glad to furnish the contract. It was a matter of public record in Cuba.

Mr. PECORA. Is that what you meant when you said this was a public contract?



Mr. MORGAN. A published contract.

Mr. PECORA. Is that what you meant?

Mr. MORGAN. I said, published contract.

Mr. PECORA. Is that what you meant?

Mr. MORGAN. Quite.

Mr. PECORA. Did you mean to convey the thought that the investing public, through the medium of this prospectus or any other thing which was brought directly to its notice, knew the provisions of the loan contract?

Mr. MORGAN. I read from the prospectus which itself quotes the contract, or uses the same language as the contract, that the Republic agrees to set aside in a special account each fiscal year 90 percent of the collections from the pledged revenues until the amount so set aside shall equal the amount required each year for the payment of principal and interest on these serial certificates. That was done and the funds were paid and the bonds have not been defaulted, and the serial certificates have been paid off.

Mr. PECORA. Did you think that the public understood from that language that all that the Government was doing and was required to do under the contract was to set up a special account on its books with regard to these funds, commingled with funds of the general funds?

Mr. MORGAN. I cannot tell you.

Mr. PECORA. How could there be a pledge of these funds if they were going to be commingled with funds generally? Will you tell me that?

Mr. MORGAN. It does not always follow that there is a specific segregation of bank notes against every lien.

Mr. PECORA. Let us talk about these funds here, not bank notes. These funds are referred to in your prospectus. How could there be a pledge and an effective pledge of those funds and a lien upon those funds if, as a matter of fact, those funds were to be commingled with funds generally?

Mr. MORGAN. The lien is set up in the general contract, Mr. Pecora.

Mr. PECORA. How could that lien attach to funds specially if those funds were to be commingled with general funds?

Mr. MORGAN. It was so set up in the contract, and the funds were paid in accordance with the contract.

Mr. PECORA. Will you tell me how there could be a lien on these funds, as that statement is used in the prospectus with respect to such a lien, if, as a matter of fact, those funds were commingled and to be commingled with funds generally of the Cuban Government?

Mr. MORGAN. You are asking me a legal question. I have answered it as a banker when I said there had been no default on these bonds and the serial certificates had been paid.

Mr. PECORA. Will you please refrain from telling us that these serial certificates have been paid until I ask you about it?

Mr. MORGAN. That is a substantial—

Mr. PECORA. Will you please refrain from telling us any more about the payment of these serial certificates until I ask you about them? Will you do that, Mr. Morgan? I wish I had a judge here that could punish you for contempt for your attitude in answering

these questions. I would invoke the power of the court; let me tell you that.

Mr. MORGAN. I wish the same thing.

Mr. WILLIAMS. If you had a judge here to pass on these questions that you are putting as matters of legal evidence, a great many of them would be excluded.

Mr. PECORA. I am afraid that most of the answers would be stricken out as not responsive to the questions, Mr. Williams.

Mr. WILLIAMS. That is one of the unfortunate features of an investigation of this character, that it is not governed by the rules of evidence.

Mr. PECORA. We are going to get all the facts possible, regardless of any purpose——

Mr. MORGAN. We are delighted to furnish the committee with the facts.

Mr. PECORA. You will furnish us facts if you will answer questions.

Mr. MORGAN. Not always.

Mr. PECORA. Just you answer the questions, will you?

Mr. MORGAN. When they deal with facts; yes.

Mr. PECORA. You will have me on my knees before you, begging you to please answer the questions, Mr. Morgan. If blandishments will do it, I will adopt blandishments——

Mr. MORGAN. That is fine!

Mr. PECORA (continuing). Short of kissing you.

Mr. MORGAN. Also fine!

Mr. PECORA. Tell us, please, Mr. Morgan, how you understood that the Government was to set aside in a special account 90 percent of the collections from the pledged revenues until the amount so set aside should equal the amount required in each year for the payment of principal and interest on the serial certificates, if, as a matter of fact, those pledged moneys, so called, were commingled with general accounts and funds? You can make your answer to that as a banker, as a lawyer, or in any other role that you wish to assume.

Mr. MORGAN. As a practical matter, Mr. Pecora, I have thought that that was a weakness in the contract, and I went to Habana a month after the receipt of this letter and made an arrangement with the Cuban Government whereby that was amended—not the contract was amended but the arrangement was amended.

Mr. PECORA. And when you say that you think that is a weakness of the contract, you are criticizing the legal work of this great lawyer Cartaya and this great lawyer Bustamante, as well as lawyers that I know were able and eminent in the personality of the members of the firm of Rushmore, Bisbee & Stern.

Mr. MORGAN. I did not answer as a legal matter, but exclusively as a practical matter.

Mr. PECORA. Bear in mind that this contract was approved by these legal gentlemen.

Mr. MORGAN. Legally, I am advised that——

Mr. WILLIAMS. May I make a statement here?

Mr. PECORA. Surely.

Mr. MORGAN. It is a legal question, and I would like to have Mr. Williams answer it.

Mr. WILLIAMS. It goes without saying that the agreement with the Republic of Cuba created a lien on its revenues and charged

them with the payment of the public-works debt to the extent of the pledge. It was contemplated that they would be set aside and held inviolate for that purpose. That pledge was of revenues to the extent necessary to meet the payments of principal and interest in the years in which the principal and interest were payable. You will note that the earliest of these serial certificates matured, as I recall it, December 31, 1931. This activity of Mr. Rosenthal, according to his letter, started in December, 1931. In the meantime, in July of 1928, there had been a change in the public works law which permitted the withdrawal of public-works revenues for the aid of the general budget, probably due to difficulties in connection with balancing their budget. As to that I do not know.

Mr. PECORA. Was that change agreed to by the Chase interests?

Mr. WILLIAMS. That change was not.

Mr. PECORA. Did it oppose the making of that change?

Mr. WILLIAMS. We did not oppose the passage of the law. In fact, the law was passed before we had any knowledge of it, but we did oppose at any time the diversion of any moneys pledged as security for this debt. In 1931 you will find that Mr. Rosenthal became active. The purpose of his becoming active was to make doubly sure that these revenues were not diverted to other purposes in any way, shape, or form which might jeopardize the payment of these serial certificates.

Mr. PECORA. When were any steps taken to make that doubly sure?

Mr. WILLIAMS. In December, 1931, was the first evidence I ever had of it. I did not know that there were any diversions prior to that time. In fact if there were I never heard of them. His object at that time was to bring about an arrangement with the Cuban Government under which they would deposit these moneys with the Chase bank itself so as to get them in its possession and take them out of the possession of the officials there, and the whole object of that was to make doubly sure that these revenues would be applied to the purposes intended. In the meantime, in the prior years, they met their payments of interest when due. There were no maturing installments of principal at all. And after they had met their obligations in each year under the agreement they were entitled to use the balance of these revenues for public-works purposes, or between 1928 and the time that they commenced to make these deposits, for general-budget purposes under this law. In other words, after they met their obligations to us in a year we could not hold the balance of the public-works revenues. They were available for the public-works program.

Mr. PECORA. You mean they were made so available by this amendment to the public-works law that was passed in 1928 some time?

Mr. WILLIAMS. No; under the agreement with us if they satisfied the requirements in a particular year and there should be any balance of the public-works revenues available they could use those revenues for public-works construction. We did not tie up the excess of the public-works revenues in other words.

Mr. PECORA. Following the situation disclosed by this memorandum of May 21, 1929, the second paragraph of which I have read into the record, did the participants in the underwriting group, namely, the Chase National Bank, the Chase Securities Corporation, Blair & Co., the Continental National Bank & Trust Co., and the



Equitable Trust Co. have a meeting or conference in which a discussion was had about the financial situation in Cuba with respect to the meeting of the payments under these serial certificates?

Mr. MORGAN. What date do you refer to, Mr. Pecora?

Mr. PECORA. I have not referred to any specific date. I said following May 1929.

Mr. MORGAN. There were various conferences in the autumn of that year. Possibly immediately after this letter. I do not know. There were conferences.

Mr. PECORA. Was such a conference held on October 24, 1929?

Mr. MORGAN. Yes. I have a memorandum of that.

Mr. PECORA. And have you a memorandum bearing that date entitled "Cuban Financing" which refers to such a conference?

Mr. MORGAN. I have.

Mr. PECORA. Is that memorandum signed by C. P. Anderson?

Mr. MORGAN. It is.

Mr. PECORA. Who is Mr. Anderson? That is, the Mr. Anderson referred to as the signer of this memorandum?

Mr. MORGAN. He was then second vice president of the Securities Corporation.

Mr. PECORA. I show you what purports to be a photostatic reproduction of such memorandum. Will you be good enough to look at it and tell me if it is a true and correct copy of the original memorandum [handing same to Mr. Morgan]?

Mr. MORGAN (after examining same). Correct.

Mr. PECORA. I offer it in evidence.

The CHAIRMAN. It will be received in evidence and placed in the record.

(Memorandum for files, Cuban financing. Dated Oct. 24, 1929, signed "C. P. Anderson" was received in evidence and marked "Committee Exhibit 48, of Oct. 25, 1933.")

Mr. PECORA (reading Committee Exhibit No. 48 of Oct. 25, 1933):

#### MEMORANDUM FOR FILES—CUBAN FINANCING

OCTOBER 24, 1929.

At a meeting of the group held this morning, discussions took place regarding recent advices from Cuba to the effect that the Government were most anxious to have the bankers refrain from making an additional issue of certificates, and were now desirous of going ahead on the basis of a long-term issue for \$60,000,000 principal amount plus a credit of \$20,000,000.

The total requirements of the Government have apparently been reduced from \$125,000,000 to \$100,000,000. This money would be provided as follows: \$20,000,000 of certificates now outstanding in the hands of the public; \$30,000,000 of certificates held by the bankers, which would be replaced by a like amount of long-term bonds; \$30,000,000 of new money represented by long-term bonds and the new credit of \$20,000,000.

The group decided tentatively that it would now be possible to make an offering of \$60,000,000 of 5½ percent bonds; idea of offering price about 98; spread 5 points. It was felt that it might be necessary to make this a 4-point spread to the Government but that by turning in at par the certificates now held, or in some other way, this spread could be increased to 5 points.

The continental markets could probably take somewhere between 5 and 10 million dollars of the long term bonds, which would not leave an excessive amount for this market.

Upon receipt of a letter from Dr. Cartaya containing details on the Government's plan, which is expected tomorrow, another meeting of the group will be called.

On the new credit of \$20,000,000 a decision must be arrived at as to how this is to be allocated; whether it is to be taken by Chase and Blair or divided in some way among the group.

C. P. ANDERSON.

Mr. PECORA. Is it fair to assume, Mr. Morgan, in the light of the statements embodied in this memorandum that between May 1929 and October 1929 the banking group had come to the conclusion that the best way of dealing with the serial certificates, including the \$20,000,000 worth that had been sold to the public and the \$30,000,000 that remained in the hands of the group, would be by refunding them through the issuance of long term bonds?

Mr. MORGAN. Did you say including the \$20,000,000 in the hands of the public?

Mr. PECORA. Yes.

Mr. MORGAN. Yes; I assume so from this letter.

Mr. PECORA. And there were various other conferences among the members of the group in which this general refunding plan was discussed, were there?

Mr. MORGAN. Yes.

Mr. PECORA. The idea being to relieve the Cuban Government of the burden of these rapidly approaching maturities for the serial certificates?

Mr. MORGAN. Exactly.

Mr. PECORA. And at the same time enable the Cuban Government to go ahead with its public-works program to some extent?

Mr. MORGAN. Precisely.

Mr. PECORA. Did those discussions lead to the making of a definite proposal on the subject on behalf of the group to the Cuban Government?

Mr. MORGAN. Yes.

Mr. PECORA. When was such a proposal first submitted to the Cuban Government, so far as you know?

Mr. MORGAN. I should say January, 1930.

Mr. PECORA. Prior to that time do you know whether Mr. Barr, who then was vice president of the Chase, had caused a letter to be sent marked "Confidential" to Mr. Henry W. Catlin, who then was down in Habana, Cuba, which letter bears date December 7, 1929?

Mr. MORGAN. I have a copy of that letter.

Mr. PECORA. I show you what purports to be a photostatic reproduction of that letter. Will you be good enough to look at it and tell me whether it is a true and correct copy of the letter in question? (Handing same to Mr. Morgan.)

Mr. MORGAN (after examining same). Correct.

Mr. PECORA. I offer that in evidence and ask to have it spread upon the record.

The CHAIRMAN. It may be received in evidence and placed in the record.

(Letter from Robert I. Barr to Henry W. Catlin, dated Dec. 7, 1929, was received in evidence and marked "Committee Exhibit 49 of Oct. 25, 1933.")

Mr. PECORA. This is marked "Committee Exhibit No. 49" and is as follows [reading]:

DECEMBER 7, 1929.

[Confidential]

Mr. HENRY W. CATLIN,  
*Sevilla-Biltmore Hotel,*  
*Habana, Cuba.*

DEAR HENRY: There is an active short-term security market here now and we are able to sell the serial certificates which we hold in portfolio. Our associates and ourselves feel strongly that we should sell the certificates prior to the holiday lull in the market, which means they should be offered not later than December 17, unless we can immediately make an agreement with the Cuban Government for long-term bonds to an amount and on a basis now possible in this market.

We and our associates feel strongly that the best we can now do on a long-term basis is to offer \$40,000,000 of 5½-percent bonds, maturing June 30, 1945, redeemable as an entirety at 105 and for sinking fund at par and to be amortized in equal installments over the 10-year period from 1935 to 1945. The total authorized amount of bonds of this character to be \$80,000,000 and all to be secured by a first lien on 90 percent of the public-works taxes subject only to the \$20,000,000 of serial certificates now in the hands of the public.

We feel we could purchase the first \$40,000,000 of the bonds at 98 less 4 points, or 94 percent of the face amount, and that we should have an option on the remaining \$40,000,000, in whole or in part—

Mr. MORGAN. 98, Mr. Pecora. Excuse me.

Mr. PECORA. 98?

Mr. MORGAN. Less 4 points.

Mr. PECORA. This is a photostatic reproduction of the carbon copy, and the typing is pretty pale.

Mr. MORGAN. Well, the arithmetic would indicate that that is it.

Mr. PECORA. Yes. That is right; 98. Thank you for the correction. [Continuing reading:]

and that we should have an option on the remaining \$40,000,000, in whole or in part for, say, 1 year at the same price, except that if we exercise the option and offer any bonds above 98, the Government to receive in addition one half of the amount above 98 on any such bonds so offered. The proceeds of the first \$40,000,000 of bonds to be applied toward the retirement at par and accrued interest of the serial certificates and work certificates held in portfolio.

We realize here that for the Cuban Government to give an option to any group of bankers represents at least political difficulties. It is not our purpose in suggesting an option to put the Cuban Government into an embarrassing position or to put us in a position of controlling the business. Our purpose in mentioning this is to meet the views as expressed by Dr. Cartaya and yourself to me, that the President is anxious to know how much his total required financing will probably cost him.

We are confident that we can provide the Cuban Government with the additional funds they require, but any group of bankers, in our opinion, today cannot make a future commitment or any commitment on financing to be required some time in the future.

At the same time, we would grant a credit to the Government for \$20,000,000 for 1 year against work certificates secured in the same way as the bonds on the public-work taxes for 1 percent commission and interest at 1 percent above the rediscount rate of the Federal Reserve Bank of New York then current, but such interest rate to be not less than 5 percent.

This credit to be reduced to the extent that option bonds are sold and the proceeds of any option bonds sold are to be applied toward the payment of any work certificates outstanding under the credit.

The foregoing is a rough summary of the plan which does not attempt to cover all the details, but I think it will be sufficient to enable you to ascertain if the Government would be willing to now proceed with this financing on the general basis outlined above.

The plan defers the short maturities except the \$20,000,000 of serial certificates in the hands of the public, thus releasing the public-work taxes from amortization charges until 1935 except such \$20,000,000; gives to the Government a credit of \$20,000,000, and places the Government in a position to sell



\$40,000,000 additional bonds to retire the credit and provide additional public-works financing.

Of course, what I am trying to do in this letter is to give you and Dr. Cartaya a picture of the situation. It is needless for me to say that we have done everything humanly possible to protect the Cuban Government and assist them in carrying out their public-works program. We cannot expect the syndicate to continue to carry \$40,000,000 of short-term notes any longer, and something must be done immediately. If the Government is interested in principle in this suggestion and is willing to trust its bankers for the future I will come to Cuba immediately to negotiate the matter.

I am sending this letter by air mail so that it should reach you Monday morning. Please telephone me as soon as possible Monday the reaction and views of the Government on the subject.

With best regards to you and my very dear friend, Dr. Cartaya,

Sincerely yours,

ROBERT I. BARR, *Vice President.*

Mr. PECORA. In the opening sentence of this letter you will observe the statement:

There is an active short-term security market here now and we are able to sell the serial certificates which we hold in portfolio.

That referred to the \$30,000,000 worth of the serial certificates that have already been discussed and which were held by the bankers in their portfolio; does it not?

Mr. MORGAN. Yes.

Mr. PECORA. In other words, the bankers at that time, knowing what the financial situation in Cuba was, felt that they were in a position to sell this \$30,000,000 of serial certificates also to the public; did they?

Mr. MORGAN. Plus the amount of the deferred-payment works certificates then in hand.

Mr. PECORA. Which amounted to \$10,000,000?

Mr. MORGAN. Yes.

Mr. PECORA. That is, the \$10,000,000 represented by the first stage of this whole financing?

Mr. MORGAN. Which they were entitled to draw under the credit. It had not all been utilized at that time.

Mr. PECORA. You mean the bankers having already sold in October of 1929 and in January of 1929 a total of \$20,000,000 of these serial certificates to the public, and having learned between May 1929 and December 7, 1929, about the financial condition of Cuba, were apparently thinking in December 1929 of unloading the other \$30,000,000 of those serial certificates on the public, were they not?

Mr. MORGAN. I take exception to "unloading" and to "the financial condition in Cuba" in that question. It is the whole matter, Mr. Pecora, the financing of the public-works program and the complicated maturities or the bunched maturities, and so on, to which you have already accurately referred.

Mr. PECORA. Mr. Barr when he wrote this confidential letter to Mr. Catlin simply said in the opening sentence [reading]:

There is an active short-term security market here now and we are able to sell the serial certificates which we hold in portfolio.

The serial certificates there referred to were these \$30,000,000, were they not?

Mr. MORGAN. Yes; which we had retained at the request of the Cuban Government.

Mr. PECORA. Do you think they could have sold those \$30,000,000 of serial certificates to the public if they had told the public all they knew at that time about the financial situation in Cuba?

Mr. MORGAN. I think so.

Mr. PECORA. You do?

Mr. MORGAN. I have not seen anything in the record that would make it impossible.

Mr. PECORA. You think the public was that gullible, do you?

Mr. MORGAN. Of course I will not respond to that, Mr. Pecora.

Mr. PECORA. You do not think it would have required the possession of the quality of gullibility on the part of the public to have purchased those certificates if their offer had been accompanied with a statement of the financial situation in Cuba as it was then known to the bankers?

Mr. MORGAN. I cannot answer a question of that sort.

Mr. PECORA. Well, you might be right. The public might have bought them. I do not know. Now was there any reply made in writing to this letter of December 7, 1929, addressed by Mr. Barr to Mr. Catlin?

Mr. MORGAN. I have no record of a reply.

Mr. PECORA. Was there any telephone conversation that you know of or which is referred to in any of the thousand records you have before you that followed upon the receipt of this letter by Mr. Catlin?

Mr. MORGAN. I know of none.

Mr. PECORA. Do you find among your records a memorandum addressed to Mr. Wiggin by one who signs himself "H. G. F." which bears date January 21, 1930, with respect to this Cuban financing? I refer you to a document marked 56-51.

Mr. MORGAN. While I am looking for this, Mr. Pecora, I would like to say that the public-works revenues at the time that Mr. Barr made this statement were still running—

Mr. PECORA. No; please do not interrupt this line of examination, Mr. Morgan.

Mr. MORGAN. Well, that goes to your question.

Mr. PECORA. Please do not interrupt this line of examination. Make a note of it and put it into the record later. I do not want to be disturbed any more by you in my line of examination of you.

Mr. MORGAN. Well, it is pertinent to this question.

Mr. PECORA. Have you found such a memorandum?

Mr. MORGAN. Yes.

Mr. PECORA. I show you what purports to be a photostatic copy thereof. Will you please look at it and tell me if it is a true and correct copy of the memorandum in question (handing same to Mr. Morgan)?

Mr. MORGAN (after examining same). Correct.

Mr. PECORA. I offer it in evidence and ask to have it spread on the record.

The CHAIRMAN. It may be received in evidence and placed in the record.

(Memorandum addressed to Mr. Wiggin, dated Jan. 21, 1930, signed "H.G.F." was received in evidence and marked "Committee Exhibit 50 of Oct. 25, 1933.")

Mr. PECORA. Before I read it into the record, Mr. Morgan, let me ask you: Who is the gentleman who signed this memorandum by the initials "H.G.F."?

Mr. MORGAN. Halstead G. Freeman.

Mr. PECORA. Was he connected with either the Chase Bank or the Chase Securities Corporation?

Mr. MORGAN. He was president of the Chase Securities Corporation.

Mr. PECORA. President?

Mr. MORGAN. Yes.

Mr. PECORA. The memorandum reads as follows (reading Committee Exhibit No. 50 of Oct. 25, 1933):

JANUARY 21, 1930.

Mr. WIGGIN: Barr telephoned that he has made the following arrangement in Cuba, which is a firm arrangement from them but does not become firm by the group until the contract is actually signed by the group. The group is sending Bisbee and Batchelder down tonight to work out the contract.

The Government repurchases from us at par the \$30,000,000 short-term bonds which we now have on hand and takes over at par the amount used of the present \$10,000,000 credit, approximately \$8,000,000. We agree to purchase from them \$40,000,000 5½-percent 15-year bonds at 95 and a banking credit is given to the Government of \$20,000,000 for 1 year at 5½ percent at an opening commission of 1 percent. This credit now becomes a 4-4 account, Chase, Bancamerica Blair, Equitable Trust, and Continental Illinois Bank & Trust each have one quarter. We also have preference on \$40,000,000 additional bonds for 1 year which, if exercised, would retire the credit. This 1-year credit will be immediately available after signing of the contract, drawings to be made against work certificates as the work is completed, as in the present credit. On the present credit Chase Bank has been carrying Blair. There is no commitment to do this under the new arrangement. Mr. Barr expects to be back on Friday.

H. G. F.

cc for Mr. McCain.

Mr. PECORA. This memorandum, based upon advices received from Mr. Barr by telephone from Cuba, indicates that by January 21, 1930, definite arrangements based upon oral understanding had been made by Mr. Barr in behalf of the bankers with the Cuban Government for the issuance of \$80,000,000 of 15-year 5½ percent bonds. Does it not?

Mr. MORGAN. The arrangements applied to \$40,000,000, Mr. Pecora. The remaining—

Mr. PECORA. But with an option on another \$40,000,000 given to the Chase?

Mr. MORGAN. Up to a certain time?

Mr. PECORA. Yes.

Mr. MORGAN. That is right.

Mr. PECORA. I mean, the general arrangements involved an issuance of ultimately \$80,000,000 worth of bonds, of which \$40,000,000 were first to be issued?

Mr. MORGAN. Yes.

Mr. PECORA. And out of the proceeds derived from the sale of this first \$40,000,000 of 15-year bonds this arrangement provided in substance that the \$30,000,000 worth of serial certificates held by the bankers and which did not mature until after the \$20,000,000 of certificates sold to the public were first to be paid?

Mr. MORGAN. That is correct. But I should like to call your attention to the fact that the certificates already in the hands of the



public remained as a first lien. Future financing was to operate as a second lien.

Mr. PECORA. But payment is better than a first, second, or third lien all put together, isn't it?

Mr. MORGAN (continuing). And at the same time the banks put up a supplemental \$20,000,000.

Mr. PECORA. But, I say, payment is better than a first, second, third, or even a tenth lien, isn't it?

Mr. MORGAN (continuing). Under precisely the same terms.

Mr. PECORA. But, I say, payment of certificates is better than a lien for their payment, isn't it? It is better than a dozen liens for future payment, isn't it?

Mr. MORGAN. Not necessarily.

Mr. PECORA. Why, do you mean to say that you would rather have a lien than actual payment?

Mr. MORGAN. If they are good, and when earning me 6 percent or  $5\frac{1}{2}$  percent and are repaid, I think they are good. It is a good investment, Mr. Pecora.

Mr. PECORA. Well, we will find out how good an investment it turns out to be.

Mr. MORGAN. Very good.

Mr. PECORA. And those are bonds that you say are now selling at about 30?

Mr. MORGAN. No; those are certificates which have been paid.

Mr. PECORA. Why was the arrangement made to take care of \$30,000,000 serial certificates which the bankers still held and which were not to mature until the maturities of the \$20,000,000 sold to the public, why was such an arrangement made to take care of those \$30,000,000 certificates first?

Mr. MORGAN. Because the certificates in the hands of the public were not callable under the terms of the contract.

Mr. PECORA. Were the certificates in the hands of the bankers callable before their date?

Mr. MORGAN. They could agree to it.

Mr. PECORA. But were they callable according to the terms and conditions of the certificates themselves?

Mr. MORGAN. No, but they could—

Mr. PECORA (continuing). Were they callable under the agreement under which all those \$50,000,000 of certificates were issued?

Mr. MORGAN. They could be altered by agreement.

Mr. PECORA. But I am asking you: Were they callable under the agreement?

Mr. MORGAN. No; I said no, they were not.

Mr. PECORA. And in that respect the \$30,000,000 of certificates held by the bankers were the same as the \$20,000,000 held by the public, I mean so far as their being callable prior to the date of maturity was concerned?

Mr. MORGAN. With the essential difference that the bankers were entirely in possession of the total, whereas the public ownership was very widely scattered.

Mr. PECORA. And with the further exception and essential difference that the public did not know anything about those arrangements until after they were consummated, and the bankers did

know because they effected the arrangements. That is a further difference, isn't it?

Mr. MORGAN. The implication of that question, Mr. Pecora, I think is not fair.

Mr. PECORA. I do not care whether it is fair or not; is it correct?

Mr. MORGAN. Will you repeat it and I will try to answer it exactly.

Mr. PECORA. Let the committee reporter read the question.

(Which was done.)

Mr. MORGAN. Yes; that is correct. The feature of the whole thing was the understanding and the time of payment.

Mr. PECORA. What did you say about the feature of the whole thing?

Mr. MORGAN. It was a spreading of maturities into a longer period so that they would relieve this series of bunched maturities, which proved ultimately to be very difficult to handle.

Mr. PECORA. But the bankers' certificates, all, although not maturing until later, were to be paid ahead of the public's certificates. There is no doubt about that, is there?

Mr. MORGAN. Quite so.

Mr. PECORA. Now, subsequent to January 21, 1930, there was a formal agreement entered into between this so-called "group of bankers" and the Cuban Government with respect to this 15-year issue of bonds that were referred to in this memorandum marked "Committee Exhibit No. 50, October 25, 1933."

Mr. MORGAN. You are asking to have the agreement——

Mr. PECORA (interposing). No; I am merely asking for the facts, "yes" or "no", as to whether an agreement was subsequently entered into.

Mr. MORGAN. Yes, sir.

Mr. PECORA. On what date?

Mr. MORGAN. February 26, 1930.

Mr. PECORA. Have you a copy of the agreement that was then entered into?

Mr. MORGAN. Yes.

Mr. PECORA. Will you produce it?

Mr. MORGAN. I will find it.

Mr. PECORA. Let me show you what purports to be a printed copy of such an agreement. Kindly look at it and tell me if you can identify it as a true and correct copy of the agreement in question.

Mr. MORGAN. Yes.

Mr. PECORA. I offer it in evidence, Mr. Chairman, but in view of the length of the agreement I think we might dispense with spreading it in full on the record. I will refer to such portions thereof as may be necessary for purposes of examination.

The CHAIRMAN. Was it printed in the hearings held by the Finance Committee of the Senate?

Mr. PECORA. I have no recollection, Mr. Chairman, of its having been so printed.

The CHAIRMAN. Well, let it be admitted and marked as an exhibit, but it will not be spread on the record.

(A printed agreement dated Jan. 21, 1930, between a group of bankers and the Cuban Government, was marked "Committee Ex-

hibit No. 51, Oct. 25, 1933", but by direction of the Chairman will not be printed in this record.)

Mr. MORGAN. Mr. Pecora, the serial certificates——

Mr. PECORA (interposing). One moment, please. Mr. Chairman, I find that that agreement was printed in full in the minutes of hearings before the Senate Committee on Finance, Seventy-second Congress. It appears at page 1998, part 4.

The CHAIRMAN. It will be received and marked as an exhibit in our hearing, but will not be reprinted.

Mr. MORGAN. The serial certificates to which you have just referred as being held by the bankers were to be paid from funds——

Mr. PECORA (interposing). Paid from what?

Mr. MORGAN. From funds to be provided by the bankers in the purchase of long-term bonds. And it was, therefore, in effect a refunding operation.

Mr. PECORA. They were to be paid by funds to be supplied by the bankers, but those bankers were, in turn, to sell those bonds to the public and be reimbursed for their outlay to the Cuban Government; is that it?

Mr. MORGAN. Correct; while simultaneously——

Mr. PECORA (interposing). So that ultimately the ones that paid the freight were the public?

Mr. MORGAN (continuing). While the bankers simultaneously furnished \$20,000,000 from their money in the bankers' credit.

Mr. PECORA. Now, we will go into the details of that this afternoon. Mr. Chairman, I suggest that we take a recess now until 2 o'clock.

The CHAIRMAN. The subcommittee will stand in recess until 2 o'clock this afternoon.

(Thereupon at 12:55 p.m., Wednesday, Oct. 25, 1933, the subcommittee recessed until 2 p.m. the same day.)

#### AFTERNOON SESSION

Upon the expiration of the noon recess the hearing was resumed at 2 p.m.

The CHAIRMAN. The committee will come to order. You may proceed, Mr. Pecora.

#### TESTIMONY OF SHEPARD MORGAN—Resumed

Mr. PECORA. At the time of recess at the end of the forenoon session today there was put into the record printed copy of the loan agreement between the Republic of Cuba and the Chase National Bank of the city of New York, dated February 26, 1930. That is the agreement under the terms and provisions of which some 15-year 5½-percent bonds were issued by the Government of Cuba?

Mr. MORGAN. Yes.

Mr. PECORA. In this instance the contracting party with the Cuban Government was the Chase National Bank, not the Securities Corporation?

Mr. MORGAN. Correct. That is true also of each of the others, Mr. Pecora.



Mr. PECORA. And did the members of the group which took over the \$50,000,000 worth of serial certificates in 1928 also participate in the same proportions in the flotation of the bonds that were issued under this agreement of February 26, 1930?

Mr. MORGAN. Yes.

Mr. PECORA. Were there any other participants in this bond issue besides those already named?

Mr. MORGAN. Merely subparticipants.

Mr. PECORA. And to whom were those subdivisions allocated?

Mr. MORGAN. The group to which you refer were the managers of the selling group.

Mr. PECORA. Then did that group organize a so-called "selling group" to distribute these bonds?

Mr. MORGAN. The selling group was composed of more than 600 banks and investment dealers throughout the United States, Europe, and Cuba.

Mr. PECORA. Was that selling group managed by the so-called "managing group" which consisted of the participants already named with regard to the \$50,000,000 worth of serial certificates?

Mr. MORGAN. (after conferring with associates). Yes.

Mr. PECORA. These 600-odd participants of the so-called "selling" group consisted of banks, financial institutions, and investment dealers throughout the country?

Mr. MORGAN. Yes.

Mr. PECORA. And through their agency were all of the \$40,000,000 worth of bonds that were first issued under this agreement of February 26, 1930, distributed and sold to the public?

Mr. MORGAN. Dillon, Read & Co. were given a special participation of a million and a half.

Mr. PECORA. Well, the question was more general than that. The question was, did all the members of this selling group of 600 or more participants succeed in distributing and selling to the public the entire issue of \$40,000,000 par value of 15-year bonds?

Mr. MORGAN. The record shows that they did.

Mr. PECORA. At what price were they offered and sold to the public?

Mr. MORGAN. Ninety-eight.

Mr. PECORA. At what price did the original group acquire these bonds from the Cuban Government?

Mr. MORGAN. At 95.

Mr. PECORA. So there was a 3-point spread?

Mr. MORGAN. A 3-point spread.

Mr. PECORA. Did the original group also obtain a commission from the Cuban Government?

Mr. MORGAN. Yes.

Mr. PECORA. Of how much?

Mr. MORGAN. A conversion privilege. It was a conversion commission.

Mr. PECORA. What did it amount to? How much did it amount to in dollars and cents, if you can give it to us?

Mr. MORGAN. In dollars and cents? [After conferring with associates:] It was a conversion commission of 1.80 on \$50,000,000

of serial certificates already sold—\$30,000,000, excuse me. \$540,000 would be an answer in dollars and cents.

Mr. PECORA. Have you a copy of the prospectus which was issued by this group, that is, by the original group, when these \$40,000,000 bonds were offered to the public?

Mr. MORGAN. Yes.

Mr. PECORA. I show you what purports to be a photostatic reproduction of such a prospectus. Will you kindly look at it and tell me if you recognize it to be a true and correct copy of the prospectus which was so issued by the original group offering these bonds to the public?

Mr. MORGAN. Yes.

Mr. PECORA. I offer it in evidence and ask that it be spread on the record.

The CHAIRMAN. Let it be admitted and entered on the record.

(Photostat of prospectus dated February, 1930, covering \$40,000,000 Republic of Cuba public works 5½ sinking fund gold bonds was thereupon designated "Committee Exhibit 52, October 25, 1933", and appears in part 4 of printed hearings before Senate Finance Committee, Jan. 27, 1932, beginning at p. 2024.)

Mr. PECORA. I notice that in this prospectus which has been marked "Committee's Exhibit 52" in evidence, there is no mention made with respect to the revenues and the expenditures of the Republic of Cuba. Do you observe that?

Mr. MORGAN. Yes.

Mr. PECORA. Do you know why no mention was made of those revenues and expenditures in this prospectus?

Mr. MORGAN. No.

Mr. PECORA. Was it because the expenditures exceeded the revenues?

Mr. MORGAN. No.

Mr. PECORA. Do you know whether or not the fact is at this time the expenditures did exceed the revenues?

Mr. MORGAN. In the preceding year, yes; they did.

Mr. PECORA. By how much?

Mr. MORGAN. \$7,440,000, according to my best figure. I presume we understand that we are talking about total revenues?

Mr. PECORA. Total revenues and total expenditures.

Mr. MORGAN. Including debt?

Mr. PECORA. Including everything.

Mr. MORGAN. Yes; that is our best figure.

Mr. PECORA. Those figures relate to what fiscal year?

Mr. MORGAN. Fiscal year ended June 30, 1929.

Mr. PECORA. That was the preceding fiscal year?

Mr. MORGAN. Yes.

Mr. PECORA. What were the total revenues shown for that fiscal year?

Mr. MORGAN. If you prefer to have me give you the figures from the stock exchange listing application or—

Mr. PECORA. Give me the figures from any source that you can take them from.

Mr. MORGAN. All right. I will give you the figures that were the basis for my last statement; \$86,765,000.

Mr. PECORA. Those are the expenditures, are they not?

Mr. MORGAN. Was that what you asked me?

Mr. PECORA. I asked you for the revenues and the expenditures.

Mr. MORGAN. Yes; the revenues \$79,325,000.

Mr. PECORA. And the expenditures \$86,765,000?

Mr. MORGAN. Yes; a deficit of \$7,440,000.

Mr. PECORA. As a banker, Mr. Morgan, don't you think that information of that sort would be useful to the investing public in determining whether or not the bonds that are offered to them are a sound investment?

Mr. MORGAN. Mr. Pecora, I have been thinking about that, and I have been trying to put myself back into the situation of 1930. The situation as it then existed was that the Republic of Cuba had an unimpaired debt record; that these bonds which were being offered were not related directly to the budget; the budget was, to be sure, a back log to be made use of only in case of necessity; that the specific security for this issue were the pledged revenues in the public-works fund; that the payment on debt in and about this same period was sufficient to account rather more than for the deficit in the budget.

For those reasons I think the makers of this prospectus, that is to say, the Secretary of the Treasury of the Republic of Cuba——

Mr. PECORA (interposing). Wait—when you say that do you mean that this prospectus was prepared by the Secretary of the Treasury of the Republic of Cuba?

Mr. MORGAN. No; I do not mean that. I mean the authority upon which this information was published.

Mr. PECORA. You mean the source from which you got the data set forth in the prospectus, do you not?

Mr. MORGAN. Yes—was justified in omitting that figure. It was not necessarily a material figure. It was a matter of choice.

Mr. PECORA. Choice on whose part? The banker's choice or the public's choice?

Mr. MORGAN. I do not know that, personally.

Mr. PECORA. The public had no choice about what was put in this prospectus, did it?

Mr. MORGAN. The choice of the people who prepared the prospectus.

Mr. PECORA. They represented the issuers, whose names appear at the bottom of the circular as follows: Chase Securities Corporation; Equitable Corporation of New York; Bancamerica Blair Corporation; and the Continental Illinois Co., Inc.

Mr. MORGAN. Yes.

Mr. PECORA. Now, the question I asked you was this, in substance. As a banker do you not think that the public, when it was invited to subscribe for these Republic of Cuba bonds, was entitled to know what the facts were with regard to the revenues and the expenditures of the Republic of Cuba for the preceding fiscal year?

Mr. MORGAN. I am disposed to think that that, taken by itself, would have given a misleading impression.

Mr. PECORA. It would have informed the public that the expenditures exceeded the revenues by nearly 10 percent, would it not?

Mr. MORGAN. Yes; but at the same time——



Mr. PECORA. And that fact would not have favorably impressed any prospective purchaser of these bonds, would it?

Mr. MORGAN. At the same time, if I had been drawing the circular. I would have stated, for the sake of the information to the public, that the debt of Cuba had come down during that same year by a little better than \$6,000,000, that is to say, practically offsetting this deficit figure.

Mr. PECORA. What was the answer? I did not get the first part of it.

The CHAIRMAN. The debt had been reduced \$6,000,000.

Mr. PECORA. The reduction of the debt does not counteract the fact that the expenditures exceeded the revenues by nearly 10 percent of the revenues for the preceding fiscal year, does it?

Mr. MORGAN. I should think it was perhaps even a more material fact, from the standpoint of the bondholder, than the current revenues and expenditures of the Republic.

Mr. PECORA. Was the reduction of the debt referred to in this prospectus?

Mr. MORGAN. Yes.

Mr. PECORA. Then, why was not the fact referred to in the prospectus that the expenditures exceeded the revenues by nearly 10 percent for the preceding fiscal year?

Mr. MORGAN. I have stated that to my best knowledge, Mr. Pecora.

Mr. PECORA. What is your answer?

Mr. MORGAN. Would the stenographer read my answer?

Mr. PECORA. No; just restate it. That will save us time.

Mr. MORGAN. Very good. That the record of the Republic in meeting its public obligations had been unimpaired; that the revenues which were the security of this issue were stated in detail, and were not the revenues that you refer to.

Mr. PECORA. Does that complete your answer?

Mr. MORGAN. Yes.

Mr. PECORA. Why did you, then, in the circulars or prospectuses which were issued in October 1928 and in January 1929, when the \$20,000,000 worth of serial certificates were offered to the public, make mention of the expenditures and the revenues of the Republic of Cuba?

Mr. MORGAN. It was then regarded as a material fact.

Mr. PECORA. When did it cease to be a material fact? Or let me put it this way. Did it cease to be a material fact when the expenditures exceeded the revenues by nearly 10 percent?

Mr. MORGAN. No; but it would have required a much longer prospectus, Mr. Pecora, in order to have set up the picture with complete accuracy.

Mr. PECORA. Just two or three lines added to the prospectus would have served to inform the public that the expenditures exceeded the revenues by nearly 10 percent, would it not?

Mr. MORGAN. Yes; and, at the same time, you would have to say by what amount the public debt had been retired.

Mr. PECORA. You said by what amount the public debt had been retired.

Mr. MORGAN. Not in that year, I think.

Mr. PECORA. In 1930 you did, did you not?

Mr. MORGAN. It stated what the debt was at the turn of the fiscal year in 1928-29, but it did not say how much it had been reduced that year.

Mr. PECORA. Mr. Chairman, I now notice that there is now present in this room a gentleman whom we subpoenaed yesterday when we learned he was in Washington. I refer to Mr. James C. Stewart. With your permission I will suspend the examination of the present witness and ask that Mr. Stewart be sworn, so that I may examine him.

The CHAIRMAN. That may be done. Will you come around, Mr. Stewart? Stand aside a little while, Mr. Morgan. I understand this will not take very long. Mr. Stewart wants to return to New York.

### TESTIMONY OF JAMES C. STEWART, NEW YORK

The CHAIRMAN. You solemnly swear that you will tell the truth, the whole truth, and nothing but the truth, regarding the matters now under investigation by the committee. So help you God.

Mr. STEWART. I do.

Mr. PECORA. Before I proceed with the examination of Mr. Stewart, Mr. Chairman, may I call to your attention the fact that immediately after the termination of the forenoon session today there was handed to me by Mr. Martin Conboy, attorney representing Mr. Wiggin, the following written statement, which has since been made public, and which I think ought to be made part of this record, so I will read it into the record now. [Reading:]

NEW YORK CITY, October 24, 1933.

*To the Board of Directors of the Chase National Bank of the City of New York, New York, N.Y.*

GENTLEMEN: At the time of the agreement to pay me annual compensation of \$100,000 it was believed to be in the best interests of the bank. As that agreement has been criticized, I beg to request that it be terminated.

Yours sincerely,

ALBERT H. WIGGIN.

Now, Mr. Stewart, will you kindly give your full name and address to the reporter?

Mr. STEWART. James C. Stewart, 230 Park Avenue, New York.

Mr. PECORA. Are you now actively engaged in business?

Mr. STEWART. I am.

Mr. PECORA. What is the nature of that business, please?

Mr. STEWART. In the general construction business.

Mr. PECORA. How long have you been engaged in that business, Mr. Stewart?

Mr. STEWART. Forty-five years, I guess.

Mr. PECORA. Did you ever become familiar with a certain public-works program instituted by the Government of the Republic of Cuba under an act passed on July 15, 1925, called the public-works law?

Mr. STEWART. I have no reference to the number of the act, but we did become familiar with the project that was being considered at the time, namely, the building of a highway from the Province of Pinar del Rio, through various other provinces, down to Santiago.

Mr. PECORA. Is that the highway commonly called the Central Highway?

Mr. STEWART. I think so.

Mr. PECORA. Mr. Stewart, when did you first become interested in that project?

Mr. STEWART. For several days, probably, or maybe for several weeks, we saw articles in the paper about the contemplated project in Cuba, and we had—I think we made some inquiry, whether it was by letter, or in some manner, to find that they were going to build a highway down there.

Mr. PECORA. When that project was brought to your notice, did you give it any study of any kind, with a view of submitting proposals to the Cuban Government?

Mr. STEWART. We did.

Mr. PECORA. Do you recall in what year you undertook that study?

Mr. STEWART. I think it was 1926 or 1927.

Mr. PECORA. In connection with that study did you come in contact with or have any communication with a man known as M. A. Corrales?

Mr. STEWART. I met him; yes. He was assistant engineer in some capacity there.

Mr. PECORA. Down in Cuba?

Mr. STEWART. Yes.

Mr. PECORA. Assistant engineer in some governmental division or department?

Mr. STEWART. Yes; I understand so.

Mr. PECORA. As a result of what you learned by your study of that project, did you have any correspondence or communication with any banking interests in reference to it?

Mr. STEWART. I did.

Mr. PECORA. With whom?

Mr. STEWART. If I may say, after getting the subpoena that I got last night, and reading somewhat in the paper about this thing, I jotted down on a memorandum here my memory on the subject.

Mr. PECORA. You may refresh your memory as much as you please by reference to anything that will serve to refresh it. Go ahead, Mr. Stewart.

Mr. STEWART. May I read this?

Mr. PECORA. All right, sir.

Mr. STEWART. This is dated Washington, D.C., October 25.  
[Reading:]

On my return to my hotel last night, I found myself being summoned to appear before the Senate Banking Committee this morning at 10:30 a.m., and in the morning papers I read that some reference is made to the Chase loans in Cuba.

I know nothing whatever concerning the Chase loans in Cuba. I have not been in that country since 1926 or 1927. My first visit to that country was in 1926, to look over the question of our company making a proposition for building the Central Highway from the Province of Pinar Del Rio through into the Province of Santiago. After spending probably about a week there examining the general situation and making a trip through the country, I returned to New York and discussed it with the officers of my company and some friends of mine who are associated with some banking houses, and it was decided that we would take some engineers and estimators down to Cuba and make a figure on the probable cost of the work, a thorough investigation of the conditions over the route which had been staked out, and make approximate estimates of the various quantities of material which had to be moved or put in place, all leading up to the question of building a concrete highway. Our estimated cost of this, if my memory serves me correctly, was some \$146,000,000 for 200 or 250 kilometers of highway, and it was estimated that it would probably take some 3 years to complete the work.



We found on inquiry that one of the requirements in connection with the securing of the contract was that there would be a 10 per cent retention until the work was completed, which, on the above-mentioned figure, would represent \$14,000,000 which had to be held back until the highway was completed and accepted. The question was discussed if certain portions of the work, when completed, could not be accepted and paid for in full, and the reply was "No", that the work would only be accepted when completed as a whole.

After discussing this financial situation with two or three of the young men I had with me, we considered it inadvisable for us to accept a contract with such a high percentage of hold-back. I communicated this fact to our New York office. We, however, later decided to make a proposition subject to a mutually satisfactory contract, which was done, as a proposition. Our proposition was not accepted by the Government, who temporarily postponed any further action in the matter.

However, about 30 days later we were asked to return to Cuba and make a proposition on a unit price or percentage basis on the building of the road.

Mr. PECORA. That is on a so-called "cost-plus basis."

Mr. STEWART. Cost plus. [Continuing reading:]

This we did. However, this proposition met the similar fate of the first, and we returned to New York.

Mr. PECORA. Mr. Stewart, will you be good enough to let me have the typewritten statement you just read, so that I may be guided by it in asking you some questions?

Mr. STEWART. Certainly [handing paper to Mr. Pecora].

Mr. PECORA. In this statement you say, in part [reading]:

After spending probably about a week there examining the general situation and making a trip through the country, I returned to New York and discussed it with the officers of my company and some friends of mine who are associated with some banking houses.

Mr. STEWART. Yes.

Mr. PECORA. With what banking houses were those friends of yours associated?

Mr. STEWART. Blair & Co. was the only one.

Mr. PECORA. Did you thereafter discuss it not only with representatives of Blair & Co., who were friends of yours, but with representatives of other banking houses or interests?

Mr. STEWART. No, I did not.

Mr. PECORA. Who were the gentlemen in Blair & Co. with whom you discussed the matter?

Mr. STEWART. There was Mr. Henry Lockhart, Hunter Marston, and I think occasionally Cheever Cowdin, but that was only intermittently.

Mr. PECORA. After that discussion with these banking friends of yours, you concluded to submit a proposal to the Cuban Government.

Mr. STEWART. Yes.

Mr. PECORA. In the hope of being awarded contracts to do all or part of the construction of this highway, is that right?

Mr. STEWART. That is right.

Mr. PECORA. Your original estimate for the cost of constructing the highway was something like \$146,000,000.

Mr. STEWART. That is right.

Mr. PECORA. Did you submit actually a proposal to the Cuban Government for the construction of the highway?

Mr. STEWART. Yes. We submitted a proposal at the time. It was read at a public hearing down there.

Mr. PECORA. Was that proposal based upon this estimate of about \$146,000,000?

Mr. STEWART. That is it.

Mr. PECORA. Was the proposal accepted or rejected?

Mr. STEWART. Rejected.

Mr. PECORA. Was any competing proposal accepted at that time?

Mr. STEWART. No.

Mr. PECORA. Or proposals?

Mr. STEWART. There was only one figure by one other concern.

Mr. PECORA. Do you know what concern that was?

Mr. STEWART. Warren Bros.

Mr. PECORA. Of Boston?

Mr. STEWART. Yes.

Mr. PECORA. Do you know what their proposal was?

Mr. STEWART. I do not. I heard it read at the time, but I have no memory of what it is now.

Mr. PECORA. Do you recall whether or not Warren Bros.' estimate exceeded yours?

Mr. STEWART. Of course, Mr. Pecora, you will understand that in giving some 250 or 300 kilometers of road—that is, one hundred and eighty-odd miles—going through various Provinces, we kept our estimates separate for each Province. I think I did.

Mr. PECORA. But did the gross estimates submitted by Warren Bros. exceed yours?

Mr. STEWART. I cannot say that from memory now. I do not think it did.

Mr. PECORA. Was any reason given at the time for the rejection of these proposals?

Mr. STEWART. That they had not—the general inference was that they had not concluded the financial arrangements so that they could enter into a contract.

Mr. PECORA. Thereafter were proposals again asked for by the Cuban Government for the construction of the central highway?

Mr. STEWART. Yes, sir.

Mr. PECORA. How long after this rejection of the proposal you have already told us about was the next invitation for the submission of proposals made by the Cuban Government?

Mr. STEWART. I think it was about 30 days or 6 weeks after that; shortly after that.

Mr. PECORA. Did you again submit a proposal?

Mr. STEWART. I did.

Mr. PECORA. Were there any competitors who also submitted proposals at that time?

Mr. STEWART. Yes; at that time there were several of them.

Mr. PECORA. Do you recall the total amount of the cost of the work that you offered to take the contract for?

Mr. STEWART. The last proposal?

Mr. PECORA. Yes.

Mr. STEWART. It was all based on unit prices.

Mr. PECORA. That was a unit price, cost plus?

Mr. STEWART. Yes.

Mr. PECORA. What proposal did you submit on that basis?

Mr. STEWART. Well, it was a kind of—I submitted a separate price on concrete, concrete in place; if they had shoulders on the roadway.

a separate price for shoulders; a separate price for any steel work; a separate price for any of the bridges, probably—a price per foot.

Mr. PECORA. What was the average profit that your estimate was submitted on, above cost?

Mr. STEWART. I suppose it figured probably 10 percent, maybe, 1 or 2 percent for some emergency.

Mr. PECORA. At the time this set of proposals was received by the Cuban Government were any awards made?

Mr. STEWART. Not that I know of. Our proposition at that time was to make it jointly with a firm of contractors in New York called Uhlen & Co. They are quite extensive operators all over the world.

Mr. PECORA. At the time you discussed this project of the Central Highway with these banking friends of yours did you seek any financial assistance or cooperation from them with respect to your proposal in the event that you were awarded a contract?

Mr. STEWART. You mean, that they would participate?

Mr. PECORA. Yes; or that they would in any way finance your operations had you been awarded a contract.

Mr. STEWART. I talked with the Blair Co. about the expense of going down there, the expense in connection with our going down and taking some other men down to go over the work. The result was that I went down and I had 26 or 30 men, engineers and estimators.

Mr. PECORA. That was for the purpose of making an estimate on which to base your proposals?

Mr. STEWART. That is it.

Mr. PECORA. My question was somewhat different. What I wanted to know, Mr. Stewart, was this. Did you at any time, in discussing this project with your banking friends, do so with a view of getting them to assist you in financing the contract if you succeeded in getting a contract?

Mr. STEWART. None whatever.

Mr. PECORA. Did you in the course of your consideration of this whole project, both on the occasion of the first proposal submitted by you and the second one, come in contact with a man named Henry Catlin?

Mr. STEWART. I did; yes.

Mr. PECORA. How did you come to meet Catlin? Who brought him to your attention or notice?

Mr. STEWART. I think that was through a Mr. Guy Currier, an attorney of Boston. He said he knew Mr. Catlin and that Mr. Catlin knew the president, Mr. Machado, and that he was president of the Electric Bond & Share Co. of Cuba. I think he was vice president of the same company here in this city; and that if anyone cared to meet anybody, he would introduce us to him and be helpful in any way to help us secure the contract.

Mr. PECORA. Was Mr. Catlin referred to by anybody in any conversation with you as one who, by virtue of his friendship with or relations with President Machado, might be of help to you in securing the contract?

Mr. STEWART. I inquired who Mr. Catlin was before I went down. I didn't know him.



Mr. PECORA. Was he ever referred to by anybody in communicating with you as one who could be helpful to you in securing the contract because of his friendship with President Machado or because of any business relations he had had with President Machado?

Mr. STEWART. No; no, not securing the contract. I was talked to about his personal relations with Mr. Machado and that he could be helpful to me if I cared to meet him.

Mr. PECORA. Helpful to you to what end?

Mr. STEWART. In a friendly way of introduction, to bring us in contact with any of the officers or officials of Cuba. I think through him I was invited over to the house to lunch two or three times with the President. I had breakfast with him a couple of times.

Mr. PECORA. Was Catlin present on those occasions when you were entertained at the Palace?

Mr. STEWART. I think, on two or three of them he was.

Mr. PECORA. You were brought to the Palace by Catlin directly, were you not?

Mr. STEWART. No; I was brought to the Palace at the invitation of the President's son-in-law.

Mr. PECORA. Was that a man named Obregon?

Mr. STEWART. That is him; yes.

Mr. PECORA. We have heard of him before.

Mr. STEWART. A very handsome fellow.

Mr. PECORA. Who brought you in touch with Obregon Mr. Stewart?

Mr. STEWART. I really don't know; I can't answer that.

Mr. PECORA. What was Obregon's business or occupation in Habana at that time?

Mr. STEWART. You mean what was his job?

Mr. PECORA. His job. That is a better way of putting it; yes.

Mr. STEWART. Well, I was told that he was the major domo—whatever that may be in Spanish; I don't know.

Mr. PECORA. Major domo where?

Mr. STEWART. Down at the palace.

Mr. PECORA. In the Presidential household?

Mr. STEWART. Yes.

Mr. PECORA. Was he also connected with any banking institution at that time; do you remember?

Mr. STEWART. I don't think so; not as long as I was there.

Mr. PECORA. How long were you there?

Mr. STEWART. Oh, I suppose I was there during a period all together of 2 months, maybe.

Mr. PECORA. That was in 1926 or 1927?

Mr. STEWART. I can't say that. It was either one or the other, probably. I think I made 3, probably 4 trips to Habana in the interim.

The CHAIRMAN. Did you make any surveys or examination of the route of the road, the proposed highway?

Mr. STEWART. The route of the road, Mr. Chairman, was all staked out, and the Government assigned an engineer to each Province to go through the Provinces with our corps of engineers. That was the engineers assigned, four or five men; and they traveled over every foot of the right of way by ox-cart, automobile, or wagon,

or walked over it, in any way that they could get over it. During that interval they investigated the possible places we could start a quarry to get out our rock for building the roadbed, and where to find sand or gravel, and the cost of transportation of the material, wherever they found it, to where it was necessary to build the road, and figured also the putting in at certain places, at various mileage, of an industrial railway that could handle the stuff more economically and in quantities so that our work would progress. They made a complete estimate of the road.

Mr. PECORA. You had to go to some expense to do that, did you not?

Mr. STEWART. We did.

Senator COUZENS. Were you guaranteed the expense?

Mr. STEWART. No, sir.

Senator COUZENS. You did that on your own initiative?

Mr. STEWART. No, sir.

Senator COUZENS. On whose initiative did you do it?

Mr. STEWART. We made an arrangement with the Blair Co. that they would pay 25 percent of the expenses and we would pay 25 percent, and they said they would arrange with a banking house to come in and join us.

Mr. PECORA. Was it the Chase?

Mr. STEWART. It was the Chase; yes.

Mr. PECORA. Who was to pay the fourth 25 percent?

Mr. STEWART. The fourth part was taken by this Currier and some friends of his; and he was the man that, after we had talked about this work—he is the man that got interested and really worked up the project of my going down there.

Mr. PECORA. Mr. Currier is a Boston lawyer?

Mr. STEWART. Yes, sir.

Mr. PECORA. To whom you have already referred?

Mr. STEWART. He had an office in New York.

Mr. PECORA. And you said it was through a client of Currier's that you first—

Mr. STEWART. Not through a client.

Mr. PECORA. You said a lawyer representing a client in Boston; did you not?

Mr. STEWART. What I intended to say, if I said that, was that he was representing an interest that he could bring in.

Mr. PECORA. And it was that lawyer, Mr. Currier, that first brought Catlin to your attention?

Mr. STEWART. Yes; I think so.

Mr. PECORA. There was put into evidence before this committee yesterday, Mr. Stewart, a letter addressed to you by M. A. Coroalles, dated July 6, 1926, which reads as follows:

MY DEAR MR. STEWART: Mr. H. Catlin, the closest business friend of President Machado, is now working in New York on the Carretera Central plan. To my way of thinking he is the man you ought to be associated with.

Yours very sincerely,

M. A. COROALLES.

Do you recall this letter, Mr. Stewart?

Mr. STEWART. I don't recall the letter, but it is quite all right.

Mr. PECORA. You have no doubt that you received it?

Mr. STEWART. Oh, I know him quite well.

Mr. PECORA. Did you meet Mr. Catlin in New York at about that time, after you received this letter?

Mr. STEWART. I can't answer that definitely. It is possible that I did. It is quite likely that I should have met him at that time.

Mr. PECORA. There was also put into the record here yesterday another letter, likewise addressed to you by Mr. M. A. Coroalles, under date of July 25, 1926, which is somewhat longer than the letter I have just read, but which concludes with this paragraph [reading]:

I again call your attention to Catlin. He is the man nearest to the president.

Do you recall that letter?

Mr. STEWART. I do not. I remember getting several letters from him, but I don't recall the substance.

Mr. PECORA. You do not want to be understood by that as saying that you did not receive such a letter?

Mr. STEWART. Oh, no.

Mr. PECORA. It is quite likely that you did, and have forgotten about it?

Mr. STEWART. If you read them there is no question about it in my mind.

Mr. PECORA. After you had been informed, through the medium of these two letters, of the relationship between Catlin and President Machado, did you discuss that relationship with Catlin or he with you?

Mr. STEWART. Catlin talked to me about the friendly relationship he had with the president, but other than that—and Catlin was anxious to see us get the work. If we could get any business down there he would be glad if we could suggest anything to him that he might be helpful in.

Mr. PECORA. What reason did Catlin have for being anxious to see you get the contract for this Central Highway? Did he have any interest or was he promised any interest in any profits?

Mr. STEWART. No, absolutely not, Mr. Pecora—not through our house, anyhow.

Mr. PECORA. Was he promised anything out of the profits to any other house?

Mr. STEWART. Not that I know of, sir.

Mr. PECORA. Why do you suppose Catlin was so anxious to see you get the contract?

Mr. STEWART. Well, it is probably difficult for me to answer that. He was a pretty decent sort of fellow and, I suppose, like anybody else that he knew, he believed in the reputation of our concern—we are the oldest contracting firm in America today and we have always had a pretty decent reputation and we never defaulted on anything since the company was started. It has finished and completed everything it has started—he was anxious to get a decent road built down there because he talked to me at the time about the benefits that it would be to the country, the increase of transportation and the bringing of produce and products up from the lower provinces into the city. Well, he was just a decent sort of fellow—that is all. I pledge you I had nothing whatever—I never discussed the question of participation with Mr. Catlin or anybody in Cuba. I never talked about it with the Chase bank, and never in the bank was it discussed, their coming in and joining us.



Mr. PECORA. With whom did you meet the president's handsome son-in-law, Obregon?

Mr. STEWART. I told you that. I might have met him with some ladies or with somebody else. He was a fine looking fellow, all right.

Mr. PECORA. In view of that I will not press the question.

Mr. STEWART. I was younger then than I am now.

Mr. PECORA. And still handsome.

Mr. STEWART. The trouble with me is that I was born 32 years too early.

The CHAIRMAN. You must have liked Cuba.

Mr. PECORA. Well, anyway, Obregon arranged for your meeting the president two or three times at the Palace, and dining with him. Was this contract or this Central Highway project discussed between you and the president?

Mr. STEWART. It was not. That may seem strange, Mr. Pecora; but it was not.

Mr. PECORA. Nothing seems strange to me any more.

Mr. STEWART. All right. Being a contractor, it would be strange to me if somebody else had not done it. But I was not given any opportunity. I would have liked to talk with him about it.

Mr. PECORA. Catlin, I understood you before to say, was present on these occasions when you were a guest at the palace?

Mr. STEWART. Not always.

Mr. PECORA. He was on some of those occasions?

Mr. STEWART. Yes.

Mr. PECORA. And at no time was the central highway project discussed between you and the President?

Mr. STEWART. Not when we were together; no, sir.

Mr. PECORA. Was it discussed at any other time?

Mr. STEWART. Yes. Catlin and I lived at the same hotel, and he would come in and say, "Stewart, how are you getting along?" And we would talk about it. We talked about when they were going ahead with it. Several times the question of legal issues was brought up. I talked to him about those. I asked him what he thought about them, or who was going to decide the contract or when it was going to be decided, and if one thing did not happen and something else would happen, what would be the result. I talked about it, Mr. Pecora. I went down with those engineers and we had a special train that followed along with the engineers. We came back with them. I had a private car and a stenographer, and and was kept in contact with them all the time, backward and forward.

Mr. PECORA. When you met Catlin in New York, in the summer of 1926, after you had received these two letters from Coroalles, did you ask Catlin, in substance, if he could assist you in your obtaining a contract for the construction of this highway?

Mr. STEWART. I don't know that I asked him to assist me. I knew he was going there and would suggest to Mr. Currier that he knew him and Mr. Catlin would probably be helpful to us down there; but I didn't have time to waste time in Habana spending much time with Catlin, because he went down and spent 2 or 3 weeks going over this road, and I was down there and did not see him.

Mr. PECORA. I was referring to the time during the summer of 1926 when, according to Coroailes' letter to you, Catlin was in New York and you were then in New York yourself.

Mr. STEWART. Yes.

Mr. PECORA. Did you, while you were in New York, see Catlin and invite his assistance in getting this contract for you for the Central Highway?

Mr. STEWART. No; it was unnecessary for me to invite him, because he was coming into—this Mr. Currier had been invited in and had a talk with him; and as I said, Mr. Currier said, "Catlin will be helpful to you in making any contact with the people in Cuba."

Mr. PECORA. And you found that what Mr. Currier said to you was so, after you met Catlin?

Mr. STEWART. Yes, sir.

Mr. PECORA. Just what help was Catlin to you in that regard?

Mr. STEWART. I guess through him, probably, I met the President. I met Coroailes, I met Mr. Cespedes, and met the minister of justice. I met the President's son-in-law. We had our own attorney. I think he was in some way connected with another son-in-law of the President, a very decent chap—

Mr. PECORA. The Mr. Cespedes whom you have mentioned was at that time secretary of public works of the Cuban Cabinet, was he not?

Mr. STEWART. In the Cuban Cabinet; yes.

Mr. PECORA. Did you discuss the highway project with him?

Mr. STEWART. I talked to him; yes.

Mr. PECORA. Did you find him in any way favorably disposed toward what you said to him?

Mr. STEWART. I don't think he brightened up to us particularly.

Mr. PECORA. Was there any reason for that, as far as you know?

Mr. STEWART. No. I just was not invited up to his place as often as some other people were; that is all. I was up and had breakfast with him one Sunday morning. He had a reputation for the giving of real breakfasts on Sunday morning, that started in about 9 o'clock and lasted until about 3 in the afternoon, or later. I stayed as long as I could. He had a peach of a place there—I will say that. It was a grotto out on the side of the water, and he had a lot of wild animals, and everything else that was wild.

Mr. PECORA. I am wondering if that was the place on which the Chase Bank had a mortgage.

Mr. STEWART. I do not think they would make a loan on that place.

Mr. PECORA. Well, they made a loan on some such places.

Mr. STEWART. No; this was a liability.

Mr. PECORA. At all events, after you had met Catlin both in New York and in Habana, and had breakfast with Cespedes and with Machado and with Obregon and with Catlin, you submitted bids, and they never were accepted. Do you know whose bid was ultimately accepted?

Mr. STEWART. I do not know whose bid was accepted. I know who got the work—Warren Bros. of Boston.

Mr. PECORA. Warren Bros. of Boston?

Mr. STEWART. Yes.

Mr. PECORA. Who were the Boston interests this attorney Currier represented at the time that he suggested that you meet Catlin?

Mr. STEWART. I really cannot tell you.

Mr. PECORA. Do you know whether Warren Bros.' bid was higher or lower than yours?

Mr. STEWART. Mr. Pecora, I would like to answer that, but I cannot. I would like to have known myself.

Mr. PECORA. You never could find out?

Mr. STEWART. No; I could not find out.

Mr. PECORA. Who were the Boston interests represented by this lawyer named Currier?

Mr. STEWART. I answered that twice, Mr. Pecora, and I said I really do not know. Currier was a pretty well-off lawyer, and he had an office or offices in the New York Central Office Building there, the old office building—not the new one; I built the new one, or we did, rather. But I have not seen Currier for 4 or 5 or 6 years.

Mr. PECORA. Yes; but you have said here, unless I misunderstood your testimony, that when Currier suggested your getting in contact with Catlin he represented some Boston interests or clients who might become interested in a contract.

Mr. STEWART. Well, he could help him finance his percentage, don't you know—that he was going to come in and participate in any profits that might be made out of it.

Mr. PECORA. Well, who was going to participate? Catlin or this Boston client of Currier?

Mr. STEWART. The Boston client. I did not know Catlin at that time.

Mr. PECORA. Do you now recall who that Boston client is that was to participate?

Mr. STEWART. I would say that it was Currier.

Mr. PECORA. Well, he was the attorney that represented some Boston clients or interests?

Mr. STEWART. No; he was the capitalist, Mr. Pecora. He had money of his own. He was a rich man. At least I understood so.

Mr. PECORA. Did you have any discussion with anybody at any time concerning any distribution of any profits that might accrue to you from the contract had you been awarded the contract?

Mr. STEWART. Yes.

Mr. PECORA. What was your discussion on that subject? With whom did you have it, and what was the subject of it?

Mr. STEWART. I had that discussion entirely with Mr. Lockhart and Mr. Marston and, as I said, the chief accountant was in on it two or three times.

Mr. PECORA. They were connected with Blair & Co.?

Mr. STEWART. Yes.

Mr. PECORA. What was the subject of that discussion that you had with these gentlemen?

Mr. STEWART. The way it came up, I told them: "It is going to be an expensive matter for us to go down and take the number of men that we would have to take, men of that type, because they are high-class engineers, high-salaried men; to take them out of our own organization and get others from the outside, and take them down



for a month or 2 months to Cuba to figure on this highway and pay their expenses."

And it was suggested—whether I suggested it or they suggested it I do not know, but that is immaterial—it was agreed between us that we would each participate and pay their portion of this expense. I think that that amounted probably to some \$30,000.

Mr. PECORA. What discussion did you have with these gentlemen about participation in profits, if any?

Mr. STEWART. We were to be paid 10 percent for supervising the building of the highway.

Mr. PECORA. That is, your firm was to be?

Mr. STEWART. Our firm. And after that, if there were any profits made from a lump-sum contract they would participate 25 percent—equally with one fourth of the profits—25 percent.

Mr. PECORA. Who was to participate in the 25 percent of the profits?

Mr. STEWART. Well, Blair & Co. handled it. They would take half. How they were going to dispose of this I do not know definitely, but I understood that the Chase people were coming in and join them with it.

Mr. PECORA. That is, Blair & Co. were to get for the benefit of themselves and their associates, which you think might have been the Chase people, 50 percent of the profits?

Mr. STEWART. They would get 50 percent; yes.

Mr. PECORA. Of the profits?

Mr. STEWART. Yes. We would get 25 percent.

Mr. PECORA. You would get 25 percent. Who was to get the other 25 percent?

Mr. STEWART. Currier.

Mr. PECORA. Currier was to get the other 25 percent?

Mr. STEWART. Yes.

Mr. PECORA. Was Catlin to get anything or was the 25 percent that Currier was to get to include Catlin's interest, if any?

Mr. STEWART. I suppose that was to include Catlin's interest.

Mr. PECORA. And I suppose that you think that because Currier was the man that first brought Catlin to your attention?

Mr. STEWART. Yes. I do not know of any arrangement that Currier and Catlin had together.

Mr. PECORA. Was that agreement in writing, Mr. Stewart?

Mr. STEWART. I think it was, Mr. Pecora.

Mr. PECORA. And have you a copy of that agreement?

Mr. STEWART. Of course I haven't it here.

Mr. PECORA. No. Do you have it among your personal effects anywhere?

Mr. STEWART. Well, if it is in existence, if there is such a thing in existence it would naturally get to our files in our office. Whether that is in the file today or not I do not know, because we keep files in the office for 3 or 5 years, as you probably may do in your office, and then it is sent up to our warehouse or destroyed.

Mr. PECORA. Was that agreement executed in duplicate or triplicate so that an original was given to each one of the persons or groups that were to participate in these profits?

Mr. STEWART. I could not answer that, Mr. Pecora.

Mr. PECORA. Do you recall who prepared that agreement?

Mr. STEWART. I thing very likely I did.

Mr. PECORA. And where, according to your best recollection at this time, was it signed?

Mr. STEWART. It was signed in New York. My best recollection would be that it was signed down at Blair's office.

Mr. PECORA. And who besides yourself was present at the time of its signing and actually signed it?

Mr. STEWART. I think very likely that Mr. Marsden and Mr. Lockhart, and probably Mr. Currier, and my brother and myself.

Mr. PECORA. You were not awarded the contract, but you did incur an expense of several thousands of dollars in going down to Cuba with your aides making a survey with a view of submitting a proposal to the Cuban Government?

Mr. STEWART. Yes, sir.

Mr. PECORA. What was the total amount, approximately, of the expense that you incurred in that respect?

Mr. STEWART. I think it was some \$30,000. I think in talking with Mr. Silver this morning he mentioned \$27,000. I do not remember what it was.

Mr. PECORA. Did you afterward seek reimbursement from anybody for all or any part of that expense?

Mr. STEWART. No. On the contrary, it did not cost as much as we estimated it would cost, and we returned them their proportion.

Mr. PECORA. Did you not actually get a check from Mr. Elisha Walker of Blair & Co., or from Blair & Co., in December 1927 for the sum of twenty-seven thousand and odd dollars?

Mr. STEWART. How much?

Mr. PECORA. Twenty-seven thousand and odd dollars?

Mr. STEWART. No; I do not think so. I do not see any occasion for his sending a check for that amount, though he may have done so.

Mr. PECORA. I have here what purports to be a photostatic reproduction of a copy of a letter written on the letterhead of James Stewart & Co., Inc., dated December 24, 1927, addressed to Mr. Elisha Walker, care of Blair & Co., Inc., 24 Broad Street, New York, which reads as follows [reading]:

DEAR MR. WALKER: We have your letter of December 23 to Mr. A. M. Stewart, which has been opened as he left yesterday afternoon for the South, and we wish to acknowledge receipt of your check for \$27,035.99 to the order of James Stewart & Co., Inc., enclosed therewith, in final adjustment of the account in connection with the Cuban highways matter. Your letter has been forwarded to Mr. Stewart at Augusta.

Thanking you very kindly for your remittance, we are

Yours truly,

JAMES STEWART & Co., INC.

Signed by a name that we make out as L. W. Hanson, treasurer.

Mr. STEWART. That is our treasurer; yes. That is spelled H-u-e-i-s-e-r.

Mr. PECORA. Do you recall sending this letter?

Mr. STEWART. No.

Mr. PECORA. Have you any doubt of it?

Mr. STEWART. Is it signed by me?

Mr. PECORA. No; it is signed by Hueiser.

Mr. STEWART. Signed by Mr. Hueiser. It is quite probable, but I do not recall it, Mr. Pecora. It does not seem to me that that was the way it happened. It seemed to me, if my recollection is right, that each came in and paid their own proportion of the probable cost.

Mr. PECORA. I have what purports to be also a photostatic reproduction of a letter addressed to you apparently by somebody in the—well, there is no signature appearing thereon. I will read the letter [reading]:

Draft of letter for Mr. E. Walker to sign.

DECEMBER 23, 1927.

DEAR MR. STEWART: In accordance with our conference yesterday I enclose our check for ——— to the order of James Stewart & Co., Inc., in final adjustment of the accounts in connection with the Cuban highways matter. I regret the delay, which was apparently due to a misunderstanding of our respective positions.

With all the compliments of the season, I beg to remain

Sincerely yours,

And there is an inscription in handwriting at the bottom of this letter reading as follows:

Letter taken over to Blair by K. A. P. personally.

Initialed "J. W. B." And attached to this photostatic reproduction of such a typewritten letter is this handwritten memorandum:

Cuba No. 26.

Then a mathematical formula showing the division of \$27,035.99 by 2 with a quotient of \$13,518. And underneath that is written "Blair & Co." And then follows this inscription:

Installment of our one half expenses of A. M. Stewart & Co. re Cuban highway business.

And I may say that these were furnished to us from the files and records of the Chase Harris Forbes Corporation. Does my reading of these letters and documents refresh your recollection as to whether or not you got the sum of \$27,035.99 from Blair & Co., representing payment in its behalf, as well as in behalf of the Chase interests, toward the defraying of the expenses you incurred in connection with this Cuban highway enterprise?

Mr. STEWART. I cannot say as to that, Mr. Pecora. I thought that it cost more money than that.

Mr. PECORA. Well, that was simply half that Blair & Co. and the Chase interests were to contribute toward this expense, because they were to receive one half of the profits, if any, arising from the contract had you obtained it.

Mr. STEWART. What was the amount?

Mr. PECORA. \$27,035.99.

Mr. STEWART. What is the amount of the check there?

Mr. PECORA. It is \$27,035.99. So that would indicate the total expense incurred by you was something over \$54,000?

Mr. STEWART. I do not remember that. It comes to my mind that it cost our company some \$7,500 or \$7,800. Now, I may be wrong. I may be entirely wrong about that. In other words, if it was four parts it would be \$28,000, I think, or \$30,000. That is about what I supposed.



The CHAIRMAN. There was something in the testimony yesterday indicating a cost of \$35,000. I do not think that is very material. Let us get on to something else.

Mr. PECORA. I have no further questions to ask of Mr. Stewart.

Mr. STEWART. May I be excused?

Mr. PECORA. Yes, sir. Thank you for your attendance, Mr. Stewart.

Mr. STEWART. Thank you, sir.

The CHAIRMAN. That is all, Mr. Stewart.

(Witness excused.)

Mr. PECORA. Mr. Morgan, will you resume the stand?

**TESTIMONY OF SHEPARD MORGAN, NEW YORK CITY, A VICE  
PRESIDENT OF THE CHASE NATIONAL BANK OF THE CITY OF  
NEW YORK—Resumed**

Mr. PECORA. Now, Mr. Morgan—

Mr. MORGAN (interposing). Mr. Pecora, before we resume may I indicate one thing for the record?

Mr. PECORA. Surely.

Mr. MORGAN. Very briefly. I testified that according to our internal figures as revised up to the latest date available to us the deficit in the Cuban budget, all over, for the year ended June 30, 1929, was \$7,440,000.

Mr. PECORA. Yes.

Mr. MORGAN. In order to have the evidence before the committee complete I should like to state that the figures submitted by the Consul General of Cuba in connection with the Stock Exchange listing application show the following: The 1928-29 revenues were \$86,883,795.74 and the expenditures were \$86,765,196.56, showing a surplus for that year of about \$120,000. This was submitted under date of July 21, 1930, in connection with the application to list the bonds now under discussion on the New York Stock Exchange.

Mr. PECORA. Now, out of the proceeds derived from the sale of those \$40,000,000 of 5½-percent 15-year bonds that were issued under this agreement of February 26, 1930, did the Cuban Government take up at par the \$30,000,000 of serial certificates which the original banking group held in their portfolios?

Mr. MORGAN. They did.

Mr. PECORA. So that by that operation the Cuban Government paid par, or \$30,000,000, for those serial certificates to the bankers through the sale of bonds which it delivered to the bankers at 95.

Mr. MORGAN. I should say, rather, it was an exchange of paper.

Mr. PECORA. Well, an exchange of paper, if you want to call it that.

Mr. MORGAN. Yes.

Mr. PECORA. So that the basis—

Mr. MORGAN (continuing). Because the bankers took bonds from the Cuban Government maturing 15 years later, in that connection.

Mr. PECORA. Well, the bankers did not hold that paper, called "bonds", but sold it to the public at 98, didn't they?

Mr. MORGAN. As they were entitled to do, and—

Mr. PECORA (interposing). The bankers got them at 95 and sold them to the public for cash at 98; isn't that correct?

Mr. MORGAN. Yes; as they were——

Mr. PECORA (interposing). Yes; "as they were entitled to do", as you say; we know that; but that is a fact, isn't it?

Mr. MORGAN. Well, that is not what I was going to say, "as they were entitled to do", but for the certificates which those bonds replaced and for which a market was available.

Mr. PECORA. Why do you say that in regard to those certificates, in view of the fact that the maturity of those certificates was later than the maturity of similar certificates sold to the public?

Mr. MORGAN. No. I say they were entitled to sell the certificates in the market instead of receiving another form of paper in return for them.

Mr. PECORA. Instead of selling them in the market they turned them over to the Cuban Government at par, didn't they?

Mr. MORGAN. Yes.

Mr. PECORA. And the Cuban Government paid for them through the proceeds of those bonds?

Mr. MORGAN. Correct.

Mr. PECORA. And the Cuban Government got from the bankers 95 for those bonds, not par?

Mr. MORGAN. Yes.

Mr. PECORA. Now, at any time during the consideration by those bankers, the banking groups, of the proposal to refund those serial certificates through this \$40,000,000 bond issue, was the question ever raised and discussed as to whether or not the bankers could properly have their \$30,000,000 of serial certificates redeemed by the Cuban Government ahead of the \$20,000,000 of similar certificates having prior maturities, which had been sold to the public?

Mr. MORGAN. Not that I know of.

Mr. PECORA. Well, now, let us see about that. You say, "not that you know of."

Mr. MORGAN. Yes, sir.

Mr. PECORA. Have you in your records a memorandum entitled, "Re \$60,000,000 Authorized Issue of Cuban Public Works Serial Certificates", and which bears the identifying number in the upper right-hand corner 56-56-A? Have you got that?

Mr. MORGAN. Yes, sir; I have it.

Mr. PECORA. I show you what purports to be a photostatic reproduction of that memorandum. Will you look at it and tell me if it is a true and correct copy thereof?

Mr. MORGAN. Correct.

Mr. PECORA. Mr. Chairman, I offer it in evidence and ask that it may be spread on the record of our hearings.

The CHAIRMAN. It will be received, and the committee reporter will make it a part of the record.

(The memorandum headed "Re \$60,000,000 Authorized Issue of Cuban Public Works Serial Certificates", was marked "Committee Exhibit No. 53, Oct. 25, 1933", and will be found on page 2740.)

Mr. PECORA. Now, on the first page of this memorandum, which has been marked "Committee Exhibit No. 53", of this date, I observe the following paragraph:

The question is presented whether the remaining certificates (including the \$10,000,000 held by the bankers) may be made redeemable prior to maturity

without violating substantial rights of the \$20,000,000 held by the public, or subjecting the bankers who distributed them to risk or to just criticism.

Do you find that paragraph, Mr. Morgan?

Mr. MORGAN. I do not find it on——

Mr. PECORA (interposing). It is on the first page of this memorandum, next to the last paragraph.

Mr. MORGAN. Yes; I now find it.

Mr. PECORA. Have you found it?

Mr. MORGAN. I now find it.

Mr. PECORA. You now know, don't you, through the medium of having your attention directed to this exhibit, that that question was discussed among the members of this banking group?

Mr. MORGAN. Yes.

Mr. PECORA. Do you know how it was decided?

Mr. MORGAN. No; I do not.

Mr. PECORA. Well, apparently isn't the answer suggested by the fact that these bonds were issued, and out of the proceeds thereof \$30,000,000 of serial certificates, holding later maturities, possessed by the banking group, were redeemed out of the proceeds of this bond issue at par before the public's prior maturities of these same certificates were redeemed? Isn't it apparent now that that is the way that question was decided?

Mr. MORGAN. The securities which the bank took, namely, bonds, and the \$20,000,000 credit which it made at the same time, were secondary liens and remained secondary liens to the certificates outstanding in the hands of the public. And I testified this morning that it was impossible to recall the \$20,000,000 of certificates outstanding in the hands of the public because no call provision was provided.

Mr. PECORA. But there was no call provision in the \$30,000,000 of those same certificates held by the banking group, was there?

Mr. WILLIAMS. Mr. Pecora, might I help out in an explanation of this situation?

Mr. PECORA. Surely.

Mr. WILLIAMS. At that time in December when the——

The CHAIRMAN (interposing). Speak a little louder, please.

Mr. WILLIAMS. In December of 1929, when this financing was consummated by the agreement of February 26, 1930, when that was being considered, there were \$20,000,000 of those serial certificates in the hands of the public, and \$30,000,000 of the same issue of certificates, with later maturity dates, were held by the bankers in their portfolios——

Senator ADAMS (interposing). Were those certificates, the \$20,000,000 and the \$30,000,000 identical in substance, other than dates?

Mr. WILLIAMS. They were identical in substance, they were identical in lien, they were identical in every respect except in maturity, and differences as between principal amounts of various certificates. The bankers also at that time held deferred payment works certificates representing advances against the original credit up to some 7 or 8 million dollars, I do not recall the exact figure. Before the closing, under the contract of February 26, 1930, the remainder of those deferred payment works certificates were issued, so that the \$40,000,000 of bonds were used to refund \$30,000,000 of serial



certificates and \$10,000,000 of deferred payment works certificates, aggregating a total of \$40,000,000.

Mr. PECORA. Just a moment. Those \$30,000,000 of serial certificates and \$10,000,000 of deferred payment works certificates, were held by the banking group?

Mr. WILLIAMS. Yes.

Mr. PECORA. And they were all paid out of the proceeds of this \$40,000,000 bond issue?

Mr. WILLIAMS. Yes. But, in effect, it was a refunding operation. It took the technical legal form of sale and payment. But, let me continue, Mr. Pecora.

Mr. PECORA. All right.

Mr. WILLIAMS. So that at that time the bankers being in possession of \$30,000,000 of those certificates, and \$10,000,000 of the deferred payment works certificates, were in a position to sell to the public those certificates, and in case of such sale there would have been outstanding, not \$20,000,000 of certificates in the hands of the public, but \$60,000,000 of certificates in the hands of the public, secured by these public-works revenues. What the bankers did in substantive effect was this: In exchange for those certificates, which were secured on a parity with the \$20,000,000 of certificates, they took \$40,000,000 of public-works bonds, and established an additional credit of \$20,000,000, secured by a lien junior and subordinate to the lien of the \$20,000,000 of certificates, thereby improving the position of the \$20,000,000 of certificates in the hands of the public, because it limited in that way and made the serial certificate issue a closed issue of \$20,000,000, secured by these revenues by a first lien on them, instead of a serial certificate issue of \$60,000,000 secured by those public-works revenues. That is, substantially, the effect of it. It wasn't in real fact a repayment, or payment of these certificates to the bankers, because the proceeds of the bonds came out of the pockets of the bankers themselves. Now, it is true that the bankers subsequently sold to the public the \$40,000,000 of bonds, but they sold them under a circular specifically describing those bonds as being subordinate to the prior lien of the \$20,000,000 certificates in the hands of the public. I think that is the actual picture that should be on the record of this committee.

Mr. PECORA. Well, it is now on the record by your statement.

Mr. WILLIAMS. Yes.

Mr. PECORA. Now, let us see if this isn't another side of that picture: At the time this agreement, providing for the issue of \$80,000,000 of bonds, was entered into, February 26, 1930, between the Republic of Cuba and the Chase National Bank, the Chase National Bank and its banking associates in the original group, held in their portfolios the \$30,000,000 worth of serial certificates that had been issued under the prior agreement of June 1928.

Mr. WILLIAMS. That is true.

Mr. PECORA. The Chase National Bank and its banking associates also held at that time \$10,000,000 of the original deferred payment public-works certificates that had been issued in 1927.

Mr. WILLIAMS. That is true. Aggregating, as I said, a total of \$40,000,000.

Mr. PECORA. That made a total of \$40,000,000. The maturities of the \$30,000,000 of serial certificates held by the bankers in February of 1930 were later than the maturities of the \$20,000,000 of the same serial certificates which had been issued in 1928 and were sold to the public by the Chase National Bank and its banking associates.

Mr. WILLIAMS. Yes; and in exchange for them the bank took bonds having a maturity 15 years later.

Mr. PECORA. All right. Under this agreement of February 26, 1930, the Cuban Government issued \$40,000,000 of 15-year bonds bearing  $5\frac{1}{2}$  percent?

Mr. WILLIAMS. Which were purchased——

Mr. PECORA (interposing). What was that?

Mr. WILLIAMS. Which were purchased by the bankers at 95——

Mr. PECORA (interposing). Well, I am going to give you the whole story, and if I do not you may supply any omissions.

Mr. WILLIAMS. All right.

Mr. PECORA. And the Chase National Bank and its banking associates of that banking group, took over those \$40,000,000 of bonds from the Cuban Government, paying the government 95 percent of their par value, and sold them to the public at 98?

Mr. WILLIAMS. Later; yes.

Mr. PECORA. Yes; later.

Mr. WILLIAMS. Yes.

Mr. PECORA. So that whatever moneys the Chase National Bank and its banking associates laid out in the purchase of those \$40,000,000 of refunding bonds, they afterwards got back in increased measure by selling those same bonds to the public at 98. That is correct, isn't it?

Mr. WILLIAMS. In increased measure, if that spread of 3 points was sufficient to cover their expenses, yes.

Mr. PECORA. Well, so far as the public was concerned they paid 98 to the Chase National Bank and its associates for those bonds, which the Chase National Bank and its associates got from the Government of Cuba at 95. That is what I mean by the term "in increased measure."

Mr. WILLIAMS. The public paid 98 and accrued interest.

Mr. PECORA. Now, was there——

The CHAIRMAN (interposing). Did they get a commission for the distribution?

Mr. WILLIAMS. The banks did not get any commission with this bond issue, Mr. Chairman.

The CHAIRMAN. I understood that there was a commission paid.

Mr. WILLIAMS. The bank bought the bonds at a discount of 5 points, or 95 and sold them at 98.

Mr. PECORA. Mr. Chairman, we will eventually show that in the sale of those \$40,000,000 of bonds, the purchase group, which was the Chase National Bank and its associates, derived a profit of \$439,907.35, and the selling group, of which this banking group or purchase group were managers, derived profits of \$964,960. We will show all that in due course.

Mr. WILLIAMS. Maybe I can clear the chairman's mind up on the commission, that he referred to. In connection with the conversion

of 30 millions of deferred-payment work certificates into 30 millions of serial certificates, the Cuban Government paid a conversion commission of 1.80, aggregating a total of \$540,000. That was done under the agreement of June 22, 1928, which preceded the agreement of February 26, 1930. The bankers in fixing the offering price to the public at 98 as against their purchase price from the Cuban Government at 95 took into account this commission which they already had in hand, so that they could arrange a spread of 4.35 instead of 3.

Mr. PECORA. Now, let me resume the narration of the various steps of this financing, Mr. Williams.

Mr. WILLIAMS. Yes.

Mr. PECORA. And I invite you to correct me if I make any statement that is not strictly in accordance with the facts.

Mr. WILLIAMS. Thank you, Mr. Pecora.

Mr. PECORA. The \$40,000,000 of serial certificates and deferred-payment public-work certificates held by the banking group were paid at par to the banking group out of the proceeds of this 40 million dollar bond issue?

Mr. WILLIAMS. Paid in part by the Cuban Government out of proceeds of the 40 million dollar bond issue which was supplied by the bankers.

Mr. PECORA. That is, the Cuban Government received payment for those \$40,000,000 of the bonds from the bankers at 95?

Mr. WILLIAMS. Yes.

Mr. PECORA. And the bankers shortly thereafter sold them to the public at 98?

Mr. WILLIAMS. Yes.

Mr. PECORA. And according to the testimony of Mr. Morgan during the forenoon session, the entire issue was disposed of to the public through this selling group that the banking group organized and which consisted of six hundred odd dealers and banking institutions throughout the entire country?

Mr. WILLIAMS. I think that is correct.

Mr. PECORA. So that the moneys laid out by the banking group to the Cuban Government and which the Cuban Government used to buy from the banking group at par the \$40,000,000 worth of serial certificates and deferred payment work certificates finally and ultimately came out of the pockets of the investing public through the sale to the public of those \$40,000,000 worth of bonds; isn't that so, Mr. Williams?

Mr. WILLIAMS. That is true, of course, but at the same time, Mr. Pecora—

Mr. PECORA (interposing). Well, then let us get that.

Mr. WILLIAMS. But at the same time we must keep this in mind, that if the banking group, instead of going through what is in fact a refunding operation, had retained the serial certificates in their portfolio they would have sold those same certificates to the public and have been reimbursed by the Republic for the amount they paid for them or for that amount less the discount at which they may have been sold to the public.

But the point I am trying to make clear is that nothing was done in this transaction which in any way jeopardized or was unfair to the 20 millions of certificates outstanding in the hands of the public,



because as a result of this operation those \$20,000,000 certificates which were not redeemable, which could not be called prior to their maturity, which had been sold and scattered over wide districts of the United States and possibly in some countries abroad, they had no way of getting them in. They were left outstanding, a first lien under a closed issue of 20 millions of certificates on these public-works revenues, and the banks took in place of them \$40,000,000 of bonds secured by a junior and subordinate lien.

Mr. PECORA. And those bonds were immediately thereafter sold by the banks to the public at 98?

Mr. WILLIAMS. Under a circular describing them as a junior and subordinate lien to the \$20,000,000 serial certificates.

Mr. PECORA. And the circular contained no mention of the fact that for the preceding fiscal year the expenditures of the Government of Cuba exceeded the revenues by nearly 10 percent?

Mr. WILLIAMS. Yes.

Mr. PECORA. Let us complete the picture.

Mr. WILLIAMS. Mr. Morgan said in his testimony that there was an apparent deficit there of around \$7,000,000. I called his attention to the fact that the listing application on file with the New York Stock Exchange signed by the Cuban Consul General does not bear out that statement. It shows that for that year there was no deficit at all but a very slight excess.

Mr. PECORA. Don't you know, Mr. Williams, from the examination and study made of the Cuban debt situation by your Mr. Geiger, as a result of that study a report or reports are contained in this memorandum of his which has gone into the record, showing that there was an actual deficit?

Mr. WILLIAMS. I don't know anything about——

Mr. PECORA (interposing). Not only during the fiscal year immediately preceding the issuance of the bonds but going back to the fiscal year ending on June 30, 1927?

Mr. WILLIAMS. Mr. Pecora, I don't know anything about it myself. I merely——

Mr. PECORA (interposing). Mr. Geiger made a special study of it and so reported to your bank.

Mr. WILLIAMS. I merely saw a discrepancy between Mr. Geiger's figures and what apparently were official figures of the Consul General of Cuba, and I called his attention to it.

The CHAIRMAN. I think we understand the facts now. We need not argue matters here.

Mr. MORGAN. I would make it clear, Mr. Pecora, that the figures I gave you are prepared 3 to 4 years later than the time when this bond circular was made up; that at the time the bond circular was made up the best available figures were no doubt the current figures of the Secretary of the Treasury, which were incorporated in the listing statements and showed no deficit whatever for the preceding year.

Mr. PECORA. Which proves the unwisdom of not having checked up on those statements furnished to you by the Secretary of the Treasury. We were discussing those statements this morning.

Mr. MORGAN. No; I think not. It indicates that later adjustments in the various funds, revisions of one sort or another, alter figures

in the case of the Cuban Government, as in the case of every government with which I have ever been familiar.

Mr. PECORA. Why, it was reported to you by your own representatives, as appears from the documentary evidence already put in, that in 1929, as early as May 1929, the Government of Cuba had expressed a desire to take \$9,000,000 out of the \$18,000,000 of special revenues provided for by the act of 1925, as a special account to secure the payment of the public improvements and use it for general budgetary purposes, despite the fact that 90 percent of those special revenues were impressed with a first lien in favor of the holders of these deferred work payment and serial certificates.

Mr. MORGAN. Yes; I emphasized the word "desire" this morning.

Mr. PECORA. So that had those facts been made known to the public, do you really think that the public would have bought these \$30,000,000 of serial certificates at par?

Mr. MORGAN. I know nothing in this record which could not be disclosed.

The CHAIRMAN. Is it not a fact that the public, in buying these securities and all other securities on the market, were influenced very largely by the people who were selling them?

Mr. MORGAN. Yes, Senator; I hope so.

The CHAIRMAN. And they had confidence in them?

Mr. MORGAN. I hope so; yes.

Mr. PECORA. Mr. Chairman, I have now concluded a line of examination with regard to this \$40,000,000 bond issue which I think will require some extended examination that will relate to what was done with the other \$40,000,000 worth of bonds that were authorized to be issued under this agreement of February 26, 1930. It is now 4 o'clock, and I think this would be a good terminal for today.

The CHAIRMAN. I hope we can proceed a little more rapidly tomorrow. We will now take a recess until 10 o'clock tomorrow.

(Whereupon, at 4 p.m., a recess was taken until 10 a.m. of the following day.)

#### COMMITTEE EXHIBIT 53. OCTOBER 25, 1933

##### RE \$60,000,000 AUTHORIZED ISSUE OF CUBAN PUBLIC-WORKS SERIAL CERTIFICATES

Twenty million dollars' certificates, of the above-authorized issue of \$60,000,000, are now held by the public, with the maturities as follows: \$6,250,000 on December 31, 1931; \$6,250,000 on June 30, 1932; \$6,250,000 on December 31, 1932; \$1,250,000 on June 30, 1933.

The remaining \$4,000,000, of which \$10,000,000 are now held by the bankers, have maturities as follows: \$5,000,000 (held by bankers) on June 30, 1933; \$6,250,000 (\$5,000,000 held by bankers) on December 31, 1933; \$6,250,000 on June 30, 1934; \$6,250,000 on December 31, 1934; \$6,250,000 on June 30, 1935; and, representing the original credit, \$5,000,000 on December 31, 1930; \$5,000,000 on June 30, 1931.

The question is presented, whether the remaining certificates (including the \$10,000,000 held by the bankers) may be made redeemable prior to maturity, without violating substantial rights of the \$20,000,000 held by the public or subjecting the bankers who distributed them to risk or just criticism.

The certificates by their terms, and by the terms of the supplemental agreement of June 22, 1928, are not callable. They are secured as to principal and interest by a first preferential right to 90 percent of the normal revenues derived from the taxes established by articles XII and XIX, inclusive, of the public works law, during the fiscal years beginning July 1, 1930, and ending

June 30, 1935, and to a like preferential right to 90 percent of such revenues collected in the intervening period prior to July 1, 1930, to the extent necessary for interest.

The public works law dedicates the revenues collected from the taxes to a special fund for the payment of the public works. The serial certificates, through their exchange for deferred payment work certificates, are issued to provide for the cost of the public works in anticipation of the collection of the revenues. In other words, under the scheme of the law and the supplemental agreement, the special fund established by the collections from the taxes is in the nature of a trust fund for the payment of the certificates in the order of their respective maturities. The agreement provides for the issuance of the certificates in such amounts as to each maturity that the total maturities (principal and interest) in any one year shall not exceed the estimated normal revenues for that year.

The \$20,000,000 certificates now held by the public were distributed under circulars containing statements or representations as to serial maturities and security as indicated above. There is no provision for the acceleration of all the maturities in the event of default. These certificates now have the earliest maturities, excepting the \$10,000,000 representing the original credit, and were purchased on that basis. They are entitled in the regular order of events to be paid out of the pledged revenues when due, prior to the maturities of the unissued certificates, excepting the \$10,000,000 representing the original credit.

#### CONCLUSIONS

1. If the plan provides merely for a modification of the supplemental agreement so as to make the unissued certificates redeemable prior to maturity, with the idea that they are to be redeemable out of public-works revenues already pledged to secure the \$20,000,000 certificates held by the public, it would in effect permit a reversal of the order of maturities, contrary to the representations under which the \$20,000,000 were distributed and purchased.

2. If the plan provides for deposit of the principal amount of the \$20,000,000 in cash with the Chase Bank, in trust for their payment when due, and either the deposit of the interest to maturity or provision by which the bank will pay such interest, we think the holders of the \$20,000,000 certificates would not have ground for criticism or complaint either against the Cuban Government or the bankers. If any of the holders should object, the funds would be available for the immediate payment of their certificates. In addition to this provision for their payment, the Cuban Government would continue liable on the certificates until paid.

3. If the plan provides that the unissued certificates (including those held by the bankers) are to be redeemable, but only out of the proceeds of a long-term bond issue, without disturbing the existing lien and rights of the \$20,000,000 certificates to be paid out of the pledged revenues when due, the holders of the \$20,000,000 certificates would not have any ground for objection or complaint.







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